S. Hrg. 98-219

THE EFFICIENCY OF FEDERAL PROGRAMS SERVING RURAL AREAS

HEARING

BEFORE THE

SUBCOMMITTEE ON RURAL DEVELOPMENT, OVERSIGHT, AND INVESTIGATIONS

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

APRIL 17, 1983.—FARGO, N. DAK.

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

23-550 O

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1983

S161-17

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NOTE.—An earlier hearing on this subject was held on Feb. 14, 1983, in Winooski, Vt.

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THE EFFICIENCY OF FEDERAL PROGRAMS SERVING RURAL AREAS

SUNDAY, APRIL 17, 1983

U.S. Senate,
Subcommittee on Rural Development,
Oversight, and Investigations of the
Committee on Agriculture, Nutrition, and Forestry,
Fargo, N. Dak.

The subcommittee met, pursuant to notice, at 1 p.m., in Prairie Public Television Studios, Ceres Hall, North Dakota State University, Hon. Mark Andrews (chairman of the subcommittee) presiding.

Present: Senators Andrews and Leahy.

STATEMENT OF BOYD CHRISTENSON, PRAIRIE PUBLIC TELEVISION, FARGO, N. DAK.

Mr. Christenson. Good afternoon. I'm Boyd Christenson; and welcome to the official U.S. Senate hearing of the Subcommittee on Rural Development, Oversight, and Investigations, of the Committee on Agriculture, Nutrition, and Forestry. The hearing will be run by the chairman of the subcommittee, Senator Mark Andrews of North Dakota. With him is Senator Patrick J. Leahy of Vermont, a member of the subcommittee.

The hearing today will consist of testimony from two expert panels here in our studio; and for the second time in Senate history, testimony will be taken by interviews over the telephone. The first time was in Vermont in February when Senators Andrews and Leahy conducted a similar hearing over live television. This is not a phone-in show. However, people wishing to testify expressed an interest earlier, and they will be called from our studios during the hearing today. There will be no open lines for you to phone in as such. I would like to remind you also that Senator Andrews is keeping the official record of the hearing open for 2 weeks so any of you out there watching today wishing to send in written testimony may do so, and you can send that written testimony to Hearing Testimony, Senator Mark Andrews, Washington, D.C. 20510.

Now I'd like to turn the hearing over to Senator Andrews who will open our proceedings this afternoon. Senator Andrews.

STATEMENT OF HON. MARK ANDREWS, A U.S. SENATOR FROM NORTH DAKOTA

Senator **Andrews**. Thank you, Boyd; and thanks to Prairie Public Television for letting us use their facilities for this official hearing of our Senate subcommittee. The second time in history, as Boyd mentioned, the first time being up in Vermont.

The committee is hearing from various people who are experts in the field of agriculture, community development, economic development, and growth because we want to find out how better to structure these programs. As was pointed out in the introduction, its obvious to all of us that we can find out firsthand by coming to the country much better than by listening to the people who are the professional lobbyists in Washington. That's why Senator Leahy and I began this whole concept of bringing the panel out to the people.

The committee hearing will follow the same tradition that we always have in the Senate hearings. Senator Leahy and I will question witnesses. We hope the witnesses will condense their statements, and they will appear in full in the record. That way we can have more time for the interaction of questions and comments and for the individuals who are testifying over the phone lines.

Senator Leahy, do you have any initial statement?

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

Senator **Leahy**. Mr. Chairman, I'm just delighted to be here. We've probably gotten our road show about ready to be patented on this. I compliment you in helping us first get the Senate rules changed so that we could go ahead and do this. It is kind of an irony in itself that this has not been done before. We're on the second leg of it, having tried it out in Vermont and, as Mark said, to get the bugs out and come out here and really do it right.

Senator **Andrews**. That's right.

Senator **Leahy**. That's why he's the chairman, you see. But it's important to get out and actually hear the people who have to work with the programs, have to deal with the paperwork, have to get the benefits if they are there in Government programs but also have to find out when Government programs don't work. It's too often if we have a program, whether it's rural development or anything else. if it's not working, we're going to hear about it first in Washington. We're going to hear today about it first out where it actually involves the people.

We've been pushing and pushing in administrations both Republican and Democrat to get them to move forward in rural development, and it just isn't going fast enough. After $4 million of spending, a rural development strategy report was recently published; but it was 2 years late. And I think as Senator Andrews stated succinctly a few months ago, the words it used did not make a great deal of sense. Rural communities deserve a lot better than that. I think you're fortunate here in North Dakota. Senator Andrews is recognized nationally as a champion of rural interest and that you have him to worry about things for you back in Washington; but just like any one of us, we get our ability to represent you and get our ability to affect these programs based on what we hear back home.

Those of us who are from States that are largely rural, as the two of us are, are particularly fortunate. We get to see our constituents and hear from them far more than if we were from a huge urban oriented State. That's why we're here; and that's why I'll hush up and actually listen to you.

Senator ANDREWS. We had Pat on the farm, and he saw those cattle we've got down on the feedlot in mud up to their bellies. And he said, "Now, how much do you have to borrow from the bank for each one of them?" And we figured out they weigh in about 700 pounds now. And he said, "Well, I can understand why you're interested." He had loan programs and capital available for farmers.

Boyd, you're going to introduce our first witness.

Mr. CHRISTENSON. Yes, for an overview, Dr. Bill Pietsch, who is assistant director of agriculture and community resource development, Ag Extension at North Dakota State University. Dr. Bill Pietsch.

STATEMENT OF DR. WILLIAM H. PIETSCH, ASSISTANT DIRECTOR, AGRICULTURE AND COMMUNITY RESOURCE DEVELOPMENT, AGRICULTURAL EXTENSION SERVICE, NORTH DAKOTA STATE UNIVERSITY, FARGO, N. DAK.

Dr. PIETSCH. Thank you, Boyd, Senator Andrews, Senator Leahy, and distinguished panelists. I'm honored to have been invited to present testimony at this important hearing.

I understand that the primary objective is to get grassroots input on vital rural concerns into the lawmaking process. I agree with you Senators on the importance of your coming to the country to investigate the conditions of the people and their communities that you impact so forcefully through the policy decisions you make in the Congress.

I'm pleased that you've listened to the message of agriculture's financial stress revealed by the overwhelming response to the payment-in-kind program in this part of the country. I'm also glad you've noticed that the casualties of our successful attack on inflation are here on the farms in the small towns of the prairies as well as in our major industrial centers. A farmer friend of mine drove that point home recently when he commented, "Hard times in agriculture are different. You don't have to be an unemployment statistic to be without an income."

Although I was tempted, I'll not use your precious time to recite what we all hear every day about the depth of the recession, the timing or strength of the recovery that for many seems so long overdue, or to try to isolate the errors of the past year or the past 30 years that lead us to this present dilemma. Instead, I'd ask that as you take policy issues before the Senate, you consider three areas for the development of the national direction; together, I believe they will have powerful impacts on the future quality of life in rural America.

The first would be to lead the development of a comprehensive national policy on food production and marketing and the quality of life in rural America. Such a policy can only be successful if it is designed as a long-term agreement. Although annual crops make up the majority of agriculture production, the farming systems within which each crop is grown are of several year durations. Dramatic year-to-year production adjustments prevent the application of many farming practices and systems that have demonstrated the capacity to conserve soil, water, and other natural resources that are so vital toward maintenance of our long-term productivity. These same dramatic adjustments result in serious capacity utilization problems for the industries, businesses, and community infrastructure that depend on and support the basic farming activities.

As new competitors for agricultural export markets emerge, our historical practice of setting price targets and attempting to control world supplies to achieve them, may well be outdated. Increasingly, our production adjustments are offset by production increases by our competitors, and world prices remain unaffected except by natural supply and demand factors.

I realize that in a free enterprise economic system we believe that being rewarded through the marketplace leads to economic justice, efficient resource allocations and other desirable outcomes. In fact, however, when prices in that marketplace are largely a function of political actions, we overestimate the ability of the market to perform its magic. As the global economy develops, meeting some of our desirable social objectives may be easier to achieve outside of the marketplace rather than trying to manage it as we have been able to do in the past.

In this new setting we will also need to carefully consider the national impact of changing our export mix to include more value added products rather than raw materials. The onsite processing of agricultural raw materials can have important effects on rural communities and the agriculture that surrounds them.

The second idea that I'd like you to consider is the growing necessity of a national monetary policy as we continue to move toward an international economy. Such a policy must recognize the impact of international currency exchange rates on regions of the country that produce commodities largely for export.

As Americans, we seem to view the strength of the dollar against other currencies as a matter of national pride—the stronger the better. Few of us realize the tremendous differential effects on the various segments of our industry and society as the value of the dollar in world trade changes. In the war against inflation, as in most others, some of the fighters die—some get promoted. Agriculture and rural communities have certainly done their share in this most recent battle.

As we function in a world economy, we may no longer be able to wage a national fight against inflation without considering the impact on currency exchange rates and in turn, on our price competitiveness in world markets. As an example, if the dollar increases by 30 percent against the Japanese yen, a bushel of wheat at $3.65 to an American farmer still looks like almost $5.25 to a Japanese importer from those competing sellers whose currency has not strengthened.

The third idea I'd like to bring to you is the urgent need for a national trade policy based on the concept of comparative advantage. This becomes especially important in a future when the industrialization of many Third World countries and increased market competition seems certain.

Two factors are bothersome as we view current U.S. trade policy from an agricultural perspective. One is the extent to which agricultural trade is used as a weapon or threat in the conduct of foreign policy. Because of our historic abundance of food, it is difficult for us to comprehend the seriousness with which food deficit nations view the reliable source issue as they develop their trading strategies. The second factor is our growing tendency toward trade protectionism. This is particularly threatening when the political process is used to erect trade barriers as life support systems for industries that are no longer competitive either in domestic or in international markets. An example is the recent choice to protect the U.S. textile industry from imports from China. While that decision is not expected to greatly affect the long-term competitiveness of our textile industry, it delivered a severe blow to our entry into the most promising agricultural market we've seen since the Japanese market was developed.

A comprehensive trade policy would focus on assuring market access to industries with natural or technological advantages while easing the reallocation of both labor and capital from those declining industries not critical to national security. The policy must further make clear that international markets are an important part of our national business strategy and not merely a place to dump products when we've produced more than we can use at home.

I ask that you are mindful of these ideas as you represent us in the Senate, and I thank you sincerely for receiving this testimony.

Senator Andrews. One of the things that I think you brought out that has to be emphasized again and again, is the statement that high interest rates increase the value of the dollar and make our grain much less competitive in overseas markets. Not only do high interest rates gouge us as farmers in our borrowing for our operating expenses; but they really get to us because they foreclose those overseas markets, and that's something that I think needs to be emphasized.

I think some people think that we lost our balance on the Senate Budget Committee last week when we said that we shouldn't cut taxes. The effort was made to keep those outyear deficits under control so we could keep the interest rates down; and in fact, maybe let them go down even further because high interest rates are the toughest tax of all, and it is a key part of agricultural overseas exports.

Pat?

Senator Leahy. You mentioned the currency fluctuation and how that affects our export market. We can expect even more of that. Certainly in the past few months we've seen the dollar strengthening substantially; but I think we're going to be in for a very, very rude shock out of Central and South America during the next couple of weeks. My own guess would be starting with Mexico and possibly others. That's going to have an effect worldwide.

How do we control these currency fluctuations? Is there really a real way that we can?

Dr. Pietsch. Well, Senator, I'm not a monetary theorist; and I'm several years away from graduate school. But, in fact, those currency exchange rates are a result of the relative rates of inflation and growth and productivity in these competing countries. You can fight inflation at home, but if you bring your inflation rate significantly below that,

that is the rate of price change compared to rate of productivity change, you get dramatically below the rate of inflation in your competing countries and your dollar strengthens. It makes their imports very cheap to us, but it makes it more difficult for those of us in the export kinds of businesses to be competitive in those world markets.

Senator **Andrews**. Thank you, Dr. Pietsch. We appreciate it very much.

Next we'll introduce our farm panel. First off we have Bob Shepard representing the Farm Bureau. We have Stan Moore representing the Farmer's Union. We have Mel Schramm representing the National Farm Organization, and we have Kent Jones, our North Dakota agricultural commissioner.

Each will testify, and might I call first on Bob Shepard of the North Dakota Farm Bureau to present your testimony.

STATEMENT OF ROBERT C. SHEPARD, EXECUTIVE VICE PRESIDENT, NORTH DAKOTA FARM BUREAU, FARGO, N. DAK.

Mr. **Shepard**. Thank you, Senator Andrews and Senator Leahy. I do hope that you'll have an opportunity to review my written testimony as it includes statements from the American Farm Bureau policy and quotations from our national president, Robert Delano.[1] I would like to just relate to you a few personal experiences though to summarize some of the things that I said in that testimony.

I would like to relate to you visits that I've had with three different farmers. The first was a farm family with several generations on the farm. They were in the business of producing seeds for sunflowers and also in production of edible beans. This family decided to concentrate on production of edible beans and marketing those edible beans into such markets as Mexico. When that economy—when the economy in Mexico fell apart, their market fell apart. Earlier this spring their farm equipment was auctioned off, and they're currently looking for a market for their farm.

I would like to relate to you a conversation that I had with a young dairyman who sat in my office asking for advice about seeking other employment. Other employment while dairy prices are down, and how he might be able to support his young family, of which I'm sure you've heard a great deal, Senator Leahy, in Vermont.

The third conversation I had with a sugar producer here in the valley. He sat in my office; I asked him, "What would you like to relate to a Senate hearing that I am attending today?" And he tightened his jaw, and his face got red. And he said, "If you could tell them one thing." He said, "We've experienced in the past 10 years, four embargoes. We've experienced untold implied embargoes that have hurt our overseas market." He said, "Please tell them that we can't stand these embargoes any longer."

And then I'd like to relate to you a trip that I had the opportunity to take into Mexico, Nicaragua, and Costa Rica about 2 months ago. And on that trip I saw hungry people. I saw people living in shacks and with open sewer systems and places that we wouldn't put our animals, and I saw hungry children with bloated stomachs and glazed eyes; and the only thing that I can ask for our Government to do is to give us access to those markets to help those economies be able to pay for the food that we produce and to help us meet those export demands.

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[1] See p. 39 for the prepared statement of Mr. Shepard.

Senator **Andrews**. That's a good statement, a good summary, Mr. Shepard. We appreciate your appearing. I've shared your concern over hunger in other lands as well as hunger in our large cities.

How do you suggest, however, that we fund the export of food to Mexico or these other countries where this hunger abides? Should we do it through an increase in our food-for-peace program? Should we arrange some type of swap commodities, their oil for our grain? You mentioned briefly, I think, shore up their economy in some way. How do you propose that? Those are the magic words, but it's darn difficult. I need a couple suggestions, but it can't be food for peace totally, because that lets them sluff off and not develop their own agricultural production. The commodity trade is a suggestion that's often made, but I thought you might have some other ideas.

Mr. **Shepard**. I think the Public Law 480 has been an excellent tool to help us feed some of those hungry people in the world. I think that the prospects for commodity trades, oil from Mexico for wheat or beans from the United States is certainly an excellent opportunity. But I think we have to start back further than that. I think that we need to pay more attention to developing countries, especially in Central America, who are our neighbors, to providing them with basic needs, education, health care, those types of things, so they can build their development. It would not help our farmers if there is not some way for the people in those developing countries to pay for the food produced. That is going to be the critical need. We already have enough food, if we just had a way to pay for it; and those economies have to be developed through some of the very basic things such as education and health care in order so that they can provide a good that is of value and they can pay for the food that we produce.

Senator **Andrews**. Senator Leahy.

Senator **Leahy**. I want to say this, Mr. Shepard, I agree with you absolutely on the embargoes. Earlier I think I used the term boycott. I meant embargo, of course. They just never worked. For one thing the real question to raise is whether morally this country should be using food as a weapon in that fashion. But then just from a pure pragmatic dollars and cents foreign policy and domestic economic policy, embargoes don't work.

With Japan we kicked the bottom out of our soybean market. When we embargo the Soviets, all that means is increased markets for Canada and a number of other countries, Australia and everybody else. They don't work, and they do make us unreliable partners. That has to be improved substantially.

What you're saying about food into these other countries especially Central America, that's in our best interest from a foreign policy point of view to bring about some kind of stability in the area. I agree with the chairman, it can't all be done under Public Law 480. We've got to find some way to make sure that some of that money is coming from these countries themselves. Otherwise, those countries continue to ignore the reasonable needs of their own citizens, one of the things that's got them in the situation they're now in.

Senator ANDREWS. You mentioned also the need of farmers for adequate sources of credit, Mr. Shepard. What is your suggestion for what can be done to provide farmers with adequate sources of credit?

Mr. SHEPARD. I think when we talk about adequate sources of credit, not only do we have to talk about the ability to get those loans but to get those loans at a reasonable interest rate which I think that you, Senator Andrews, addressed a little bit earlier. And I think there is a need for a balanced policy to address those interest rates. We've seen a real stress on monetary policy to bring those interest rates down; and of course, as our dollar strengthens, that hurts the ability of the foreign customers to buy our products. But I think that if we would take a more balanced approach to a fiscal policy, to tax policy, as well as monetary policy, that this would be less burdensome on our exporting industries such as agriculture.

Senator ANDREWS. Thank you very much.

Our next witness is Stanley Moore, president of the North Dakota Farmers Union. Welcome to our committee hearing, Stan, glad to have you here; and as I assured other individuals testifying, your full statement will be in the record as though read.[1] You can summarize in any way you want.

STATEMENT OF STANLEY MOORE, PRESIDENT, NORTH DAKOTA FARMERS UNION, JAMESTOWN, N. DAK.

Mr. MOORE. Thank you, Senator Andrews, Senator Leahy.

Any rural development strategy must begin with a premise that the best rural development is a healthy agriculture economy. It therefore must be based on a permanent national farm policy targeted for family size farm units providing stable supply management with price supports at cost of production.

We are currently in the midst of the most critical economic crisis in modern agriculture history. The distressing figures of our net farm income, equity, and debt conditions have all been well documented. These conditions are simply beyond the control of those who live and work in rural America. We do not have the capacity to solve these problems without meaningful partnerships between the citizens and their government.

Just this past week we had another example of the depression facing agriculture. Despite the fact that North Dakota farmers led the Nation in signups for the 1983 wheat program, there is a serious shortfall in operating credit. We are among the 17 States that have already used all of the available Farmers Home Administration operating loan funds for the third quarter of the Federal fiscal year. Our State's FmHA Director, Ralph Leet, estimates that this means that between 500 and 700 farmers will be affected by the shortfall; and I understand just this last week in the House committee, it was estimated by the chairman, Congressman Jones, that there is probably a shortfall of $450 million nationally in operating loan funds. Yet the vast majority of farm credit sources are doing everything within their ability to meet the needs of their borrowers. This shortfall in FmHA funds is simply another indication of the conditions we face in agriculture that are beyond the capacity of the existing system.

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[1] See p. 41 for the prepared statement of Mr. Moore.

Agricultural history clearly shows that in every major crisis it has become necessary for Government to restructure, reorganize, and redirect its rural development programs. The critical conditions in agriculture today demand a similar strategy. We need to stabilize farm income, recapitalize family farm agriculture, and revitalize our rural communities. We must begin to rebuild rural America. Because of the immediacy of the farm credit crisis, the first step in this process must be the reorganization of the Farmers Home Administration.

First, the Farmers Home Administration must be returned to its original purpose of serving family size farms through supervised loans as a lender of last resort.

Second, Farmers Home loan programs must be redesigned. Loans should be based on the flexible repayment schedule that reflect the producer's annual net income and crop production. The interest rates must be geared to the ability of the producer to repay even if it means a 1-percent rate to allow FmHA to bring full priority to family farmers. Its farm loan programs must be brought together in a separate agency and reorganized into the family farm recapitalization administration. Farmers Home other responsibilities such as housing, community facilities, business and industry, rural area development, should be consolidated with similar agencies in a separate rural development administration. The new rural development administration loan and grant program should be based on the same criteria. It should be a lender of last resort capable of dove-tailing and supplementing State and local sponsored programs and have flexible repayment schedules and interest rates.

Obviously, the reorganization of FmHA must then be followed by a permanent Federal farm program. We need to systematically review every Federal agency and policy affecting rural America. We can no longer afford the penny-wise, pound-foolish approach to current Federal budgeting. We need a capital budget system that separates Federal investments and loans from Federal operating expenditures. Through innovative approaches, we can apply new and meaningful strategies of rural development to meet the challenges of economic crises; and in the process, I believe we can rebuild the trust and participation of citizens in their Government and economic system through a partnership of citizens with their Government.

Thank you.

Senator ANDREWS. Thank you very much, Stan.

Actually as far as that crisis in operating loan funds and Farmers Home, as you know it was resolved on Friday. We got into a fight between OMB and Farmers Home. Senator Leahy and I both serve on the Appropriations Committee, and I think it's worth noting that we have sharply increased funding available for Farmers Home Administration operating loan funds each year. This year we're going, what, $1,860,000,000 compared to $1,510,000,000? We ran out not because the money is less, there's more; but because the demand is so much greater, and we've transferred 17 States for a short change.

I don't know, was Vermont caught in it? Thad Cochran in Mississippi, the chairman of the subcommittee, was caught in it.

Senator **Leahy**. Vermont is in it.

Senator **Andrews**. So in North Dakota. We transferred over and now all of the farmers who have been declared eligible will get the disbursement on Monday or Tuesday of this next week of their funds. The funds are there so we got $400 and some odd million which is about what it takes. But along that line, and you talk about restructuring and a major redo of the Farmers Home Administration, at what point do we trigger people out of Farmers Home eligibility? You said it should be the loan maker of last resort. I detect you've got some kind of a cap that you feel should be placed on those eligible for Farmers Home.

Mr. **Moore**. Well, obviously a Federal credit agency can't deal with all the problems. The private sector has a major responsibility. But as we have seen in the last several years, many of the private lenders and the Farm Credit System itself are saying, "Well, we can't stay with you any longer because you don't have repayment ability. You haven't got enough of your own individual equity in there."

So it seems to me that there is a practical point that Farmers Home could start to diminish its role by the degree of equity that the individual finally acquires in his operation. When it reaches that, say the Farm Credit System would be willing to assume a portion or all of that loan, that's the point in which he ought to be triggered out of the Federal system.

Senator **Andrews**. Senator Leahy.

Senator **Leahy**. You talk, Mr. Moore, of a national long-term comprehensive commitment to save and preserve the family farm; and I agree with you totally on that as I know the chairman does.

What tools of the Federal Government should we use to make this commitment? Whatever tools we have are limited. I mean do we save the family farm? Do we also save the steel industry? Do we save the automobile industry and so on?

If we're going to save the family farm, what tools are really the ones most effective?

Mr. **Moore**. The availability of credit. The monitoring and the utilization of the Federal's ability to provide credit is one. Obviously the method in which the farm programs are administered and to the extent that you extend price and protection and so on, and the limit also becomes a tool that the Federal Government can use to monitor the size and the maintenance of the family farm system.

And lastly, the development of a rural program that provides other assistance to those rural communities like, how do you maintain the local business in the small communities? That also makes it possible for families on the farm to raise their children out there in a meaningful environment, with educational opportunities and so on. Those are all part of the total strategy that has to be looked at.

Senator **Leahy**. Thank you, sir. Mr. Chairman.

Senator **Andrews**. Thanks, Stan.

Our next witness is Mel Schramm, the president of the National Farmers Organization. We have your statement, Mr. Schramm; and let me assure you it will be included in the record in full.[1] You can summarize it in any way you wish so that we can find any questions with it. Glad you came.

STATEMENT OF MELVIN SCHRAMM, PRESIDENT, NORTH DAKOTA NATIONAL FARMERS ORGANIZATION, CATHAY, N. DAK.

Mr. SCHRAMM. Thank you, Senator Andrews and Senator Leahy.

My testimony is quite long, and I will try to condense it down; but while I am president of a farm organization, I'm also a farmer that—I feed my own cows in the morning. I do all my own work so I'm going to talk more from the heart than from my text; and as a farmer to a committee in Washington, we've waited a long time for this.

We've got three problems that really bother the farmers out here. One is farm prices, the weather and Government intervention. The weather we can't do anything about. Government intervention we don't want to say that we don't want any Government programs. There are some good Government programs. Government intervention, we look at embargoes. Some of the other things that effect our markets are Government related.

The PIK program is pretty debatable whether it is going to be a good program for the farmer or not. I just hope that there aren't any people that misinterpret the PIK program, the huge signup for it, that they think that the farmer really likes Government programs because they really turned out. But they're desperate, and they're looking for some way to survive.

Now I live in the central part of North Dakota; and within 60 miles of my place, four very large farmers have filed bankruptcy in the last 2 months. A number of mid-size farmers have filed bankruptcy, and we're wondering how many more are. There are a few foreclosure sales; and although the lending agencies say their foreclosure rate is low, by the number of auctions sale bills that are up, we know that a lot of farmers have been issued an ultimatum, either you sell out or we'll foreclose. So in effect it's really a forced sale. All of this is brought about by low farm prices.

Senator Andrews, you stated that every year we appropriate more money for farm loans; and we don't need any more loans. What we need is a price to repay back some of the loans that we have. There are surveys out saying that one-half the farmers in this country are debt free, and that might well be. The surveys don't say, are these older farmers that acquired their land and raised their families before inflation set in, and how many of these farmers have off-the-farm jobs that are supplementing their farming income? But if just one-half the farmers are carrying the debt load, they're more apt to be the younger farmers, the real future of agriculture. And if that's the case, we're really in trouble.

Getting back to the farm programs, we've had the reserve program the last few years. It turned out to be the best game in town. The farmer could put his grain into reserve and get a higher price than he could in the market, and our Federal Government has gotten into trouble with this because of the huge cost to the budget for this program; and at the same time, it has dried up the grain pipeline. And so that's how the PIK program got hatched this winter between the grain trade and USDA.

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[1] See p. 48 for the prepared statement of Mr. Schramm.

The grain trade needed to get their hands on some grain and USDA wanted to cut the supply; and the PIK program is going to do both of that. We're going to get some PIK bushels to market and it's going to cut down on the amount of grain that the Government has to pay storage on, and interest, and et cetera.

But what will it do for the farmer? Since the PIK signup has been announced, grain in our area, wheat for instance, has gone from 40 to 50 cents a bushel higher from $3.30 to $3.70. Now that's encouraging, but if it costs $4.25 a bushel; and that's a figure, incidentally, that a local PCA representative said that he estimates the average cost in central North Dakota to produce a bushel of wheat, now that won't cover any repayment of debt or anything to live off of. But if we're still 50 cents below what it cost to produce it, what's the big deal. And I think this is part of our problem.

Everybody here has talked about the export and the country's ability to pay, and this is really important; but what they're forgetting about is that the farmer out here has to get cost of production in order to survive. And there isn't any other business that can operate without getting the cost of production returned to them first, and that's the reason the National Farmers Organization is in existence.

We're a collective bargaining organization; and our goal is to get cost of production plus a profit. And over the past 10 years, we have built some real good marketing programs that a farmer in North Dakota can market just about any product he raises through our organization, and we have the mechanics all there. It's just that the people have to use them. And part of our problem getting people to accept it, we have people that are extension marketing specialists and other people conducting marketing seminars, the accent on futures, hedging and so forth; but none of them ever talk about the marketing programs NFO has. Whether they don't know about them, if they want to be a marketing specialist, I think they should know about them; and I think the farmers are being led down a path where it really isn't going to help them because we have to get back to the point where we get a price.

When we get a price, we're going to have more money to spend on rural America. It's going to make this man that wants to have a business in a small town where he can raise his family; he's going to have some customers that have some money. And it will help the whole economy. That's one of the first economic rules is that for a country to get more new wealth it has to come from the soil, either agriculture or minerals. And if we don't put a price on our agricultural products, we just aren't going to get enough money into the economic system.

Senator **Andrews**. That makes an excellent point; but in the meantime, and I know the concept of NFO, it's one of collective bargaining. It's worked, in a sense, collective pricing through marketing together.

In the meantime, do you feel that farm programs should be shunted aside that we can get along without farm programs?

Mr. SCHRAMM. Not at all. There is a lot of farm programs that are good. We need something right at the present time although we do feel that with our marketing programs that if they were used, we could do something about the prices. But we have to have some Government support and so forth.

Senator ANDREWS. And you feel that a higher loan rate or something like that could help you in the efforts that you're making in this?

Mr. SCHRAMM. Right. By having a loan rate even if it's at $3.65 like it will be for this year, it gives the farmer a chance to take a loan on his grain and get some operating money at that time; and he can market it sometime during the year when it's most advantageous to him.

Senator ANDREWS. Fine. Senator Leahy.

Senator LEAHY. Only to state that Mr. Schramm said that he would probably waive his printed statement and speak as a farmer from the heart. Let me tell you, that's the most effective way; and I appreciate your testimony. Thank you, sir.

Senator ANDREWS. Glad to have you here.

Our next witness is Kent Jones who is North Dakota's Commissioner of Agriculture. He's a working farmer himself and has been a long-time friend. Kent, good to have you here.

STATEMENT OF HON. KENT JONES, COMMISSIONER OF AGRICULTURE, STATE OF NORTH DAKOTA

Mr. JONES. Thank you, Senator Andrews and Senator Leahy, I'm happy to be here.[1]

I am real pleased to continually hear the testimony that we're worried mostly about getting rid of our grain and the marketing of it. The only way we're going to have rural development is on a long-term basis, through marketing. We in North Dakota, and certainly all U.S. farmers, have been very good at production. We've doubled, tripled, quadrupled; but somehow, when the bins are bursting and all the extra calves are in the lot, and so forth, we forget about marketing. And I think the only way that we're going to be able to work a long-term solution is to further develop marketing on many different levels. Certainly, the Federal Government would be an integral part of that.

I'm also pleased to hear so many times today, by the Senators and by the witnesses, about governmental interference and how much it bothers us. I think there is a beautiful example.

I am thinking of Argentina. When the Russian embargo came, they put the carrot to Argentina and Argentina now has over 7 million hectares planted. A lot of it is the result of the fact that Russia went to them instead of staying with us. So, "food as a weapon" has definitely got to go. However you can work that, that's the thing to do.

I think not only can the Federal Government become more aggressive in marketing and thereby probably save themselves some storage moneys and overall moneys, but many of the States are waking up to the fact that they can do some good in marketing also. Texas, Nebraska, and North Dakota are looking at it. Montana is participating in direct buying concepts from the farm right to the mill or to the butcher in Korea or wherever; and they're having success at it. But it's a very complicated area with many pitfalls.

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[1] See p. 51 for the prepared statement of Mr. Jones.

Here the USDA has very little expertise that is available for this type of work, not only in the credits but in all the other problems that are involved. So here would be an area that I would highly recommend that some beefing be done in the expertise availability on USDA and marketing for States who are interested in identity-preserved grain or are interested in working in direct buying.

These things don't come easy, and they're going to take time to develop; but expertise in this complicated area would be most helpful. The States are already moving. It's a matter of filling them in and letting them know what they can do and what they can't do.

One of the things that I was interested in hearing is the fact that you were worried about how the developing countries are going to help pay for the grain or the cattle or whatever it is we ship to them. There, again, it's a matter of trade both ways. China, for example, in 1981 bought more wheat from us, paying cash, than any other nation in the world; but they did it by selling textiles and other goods to us so they can raise cash and then turn around and buy our wheat.

The same is true in Chile and many other South American countries. They have things they can sell to us. It's a matter of getting trade both ways to develop the trade that we need in the ag segment for maintaining our farms.

You've heard repeatedly today that the farm sector is in trouble; and it really, really is. There is more grain sitting out there than we've ever had before, but there's no price and it doesn't do any good to have your bins full if you can't come out with a profit. So marketing—short term, long term—is a solution. I have no idea yet which direction it's going to go, because it's something we've ignored in the past, something that we must gear up. We must become competitive in world trade. I think that there are many new areas we can develop such as exporters within States doing a direct buying and identity preserve.

The last thing I want to mention is, the USDA is coming out with a "pulling up the socks" plan to improve the grain standards. Here again is something that we've been lax in, and here again is something, hopefully, that you gentlemen on your high level can help out on so that the standards, the quality of the grain that we do ship in to these foreign countries, is exactly what we say it is and not something else. This way, we can get rid of a lot of the trash that has been going to those countries. The grain trade, I guess, may resist. But I think we as farmers have got to get a little more forceful and see to it that these standards are indeed tightened up, and that we do indeed then become a reliable quality producer—which we are, and which somehow we're letting slip by.

Senator **Andrews**. Thank you, Kent, for an excellent statement.

Now as commissioner of agriculture in North Dakota, you've been a pioneer across this Nation in overseas direct marketing. What can we do at the Federal level concisely to help you? A lot of things——

Mr. **Jones**. A lot of things.

Senator **Andrews** [continuing]. But you mentioned a couple three of them. One is of the grain grading and standards and all of that and Iowa and North Dakota is head of that. So we're moving in that direction. What specifically? Do you need credit availability? Do you—what do you need?

Mr. **Jones**. OK. The pioneer on this has been livestock, and Nebraska has been shipping out livestock. We are now looking at it, working with an exporter in the State to Korea, some 400 head per 747, and it works. It's working for other States.

The main problem we have is what I call the funding of money, the credits for the money until the door is shut on the 747 and those 400 head are tucked in their crates, and they're within hours of Korea. There is a 30- to 40-day lapse period in there that the farmer gets paid at the gate for his cattle, and the gates shut on the 747; and that so far has been the big problem.

The same thing is true for meat. Until the letter of credit comes in and is in effect, we've got a time frame that we've got to have coverage. We've worked out many problems. Wheat, we're hopeful, will not even go through subterminals but will go directly to the ship through various stages.

Senator **Andrews**. Good suggestion. Senator Leahy.

Senator **Leahy**. I think we're running short on time so I'll hold my questions for Mr. Jones for later on, after the show.

Mr. **Christenson**. We have a phone call, Senator; and this first phone call is from Howard Carlson of Rocklake. He is a Durum farmer.

Hello, Howard, you're on the air.

Mr. **Carlson**. Hello.

Mr. **Christenson**. Would you state your name and your address for the record, please?

Mr. **Carlson**. I sure will. Hello, Senator Andrews and Senator Leahy.

Senator **Andrews**. Howard, good to have you testify.

STATEMENT OF HOWARD CARLSON, ROCKLAKE, N. DAK.

Mr. **Carlson**. I'm Howard Carlson from Rocklake, N. Dak. I have been farming for 35 years in Towner County where we raise Durum, barley, flax, and mustard and have poultry and a herd of cattle.

My wife, Bernice, and I have five sons, two whom are trying to get started farming with us; and farming for the last while and presently is very tough. The worst I seen since I've been farming. Grain and cattle prices are too low compared to the expenses that are increasing each year. The cost of fuel, chemicals, fertilizer, and machinery costs are going up each year, and a special concern is the high interest cost we have to pay on the money we have to borrow to try and stay in business.

There are many farmers going out of business and more farm sales than I've ever seen. Many farmers are dipping very heavily in their equity to try and stay in business and are finding it impossible to borrow enough money to even operate, and I see a big increase in attempted suicides in rural areas which are direct results of economic conditions that we are facing today.

I do feel that the farm programs are very essential. They are needed to provide stability in agricultural economy which has so many variables over what the farmer has no control such as the weather and the price received for these products which the farmer sees in raising fixed costs.

The programs are also in the best interest of the American taxpayer to insure a balance of trade in the world market. Having served as chairman of the Towner County AFC Committee for 13 years, I fully understand the importance of these programs. The biggest problem, as I see it, is that the dollar figures in the farm program are not big enough or high enough to relate to the expense that the farmers have to pay.

My question to your committee is: When can we expect an increase in grain loans, target prices, deficiency payment, reseal loan storage payments and so on, in relation to what the cost increases are for farmers? I think it's important that there be an annual realistic increase in these programs to reflect the cost increases of us farmers. It seems that most other major grain producing countries support their agricultural producers at a higher level than we do in the United States.

I'd like to thank the committee for your efforts to get these facts from our agricultural area on our situation, and I want to thank you for giving me the opportunity to speak. If you have any questions to the committee members around me, I will be pleased to try and respond to them.

Senator **Andrews**. Thank you, Mr. Carlson, for an excellent statement.

Senator Leahy deferred to me the answer of when we were going to get higher price supports.

Senator **Leahy**. He's the chairman. He can answer the question.

Senator **Andrews**. Who knows, in a couple years, you might be; and you can answer the question. But the problem as we see it, Mr. Carlson, is one of procedure through the Congress.

Senator Leahy and I supported the farm bill. We passed the farm bill through the Senate by a two-to-one margin; but when it hit the House, it only got passed by a two-vote margin. And when you're that close, it's almost impossible to go in and try to fix it up, to increase and say, "Look, these loan rates are simply too low. We ought to increase them." We did that before.

Every 4-year farm bill has been increased, what, at least once and sometimes twice in the 4-year period; but it's always been a bill that's been passed by a 2-to-1 margin. And that's the problem right now; but, Mr. Carlson, as an AFC leader in your county where they produce a good deal of Durum wheat and all, would you say that a higher loan is more needed or a higher target price? Which do the farmers think is most worthwhile?

Mr. **Carlson**. Well, I think they both relate together so that we do get an adequate price for the product that we are growing. The PIK program, for instance, is a very popular program; and it's a program that I think is going to work. It will take care of the surplus; but in every end of it, we need to have the loan values and the prices so that we do get a bigger return per bushel back to the farm. The farmer just is not getting a big enough return for the bushel that he produces.

Senator **Andrews**. And whether it's in loan rate or target rate is immaterial to you? You just feel they ought to be higher?

Mr. **Carlson**. That's right. The total production or the income to the farmer needs to be higher for what he's producing, and of course along with that, the farm programs as they have been for many, many years and in the past, they are workable; and they work, but they have to be in the right relationship to what the costs are.

Mr. **Christenson**. Thank you, Mr. Carlson. We have to move on. We have another phone call. Thank you so much for your testimony.

Mr. **Carlson**. Thank you very much.

Senator **Andrews**. Thank you very much, Mr. Carlson.

Senator **Leahy**. Thank you.

Mr. **Christenson**. On the line with us now is Mr. Lynn C. Wolff, a rancher; and you're on the air, Mr. Wolff. Will you again state your name and your address for the record, please?

STATEMENT OF LYNN C. WOLFF, CHAIRMAN, ASSOCIATION ON NATIONAL GRASSLANDS, HAYNES, N. DAK.

Mr. **Wolff**. My name is Lynn C. Wolff from Haynes, N. Dak.; chairman of the Association on National Grasslands. And that is my reason for talking to you Senators this afternoon. I thank you for coming.

I think basically the first thing I want to say is a strong America means a strong rural America. Every economical unit possible in the United States is necessary.

Along that line, having to do with the National Grasslands, we are now dealing with this administration to a certain degree in asset management; and of the permittees in the 5-State area which I represent, our concern is with this.

We have two problems basically. One is our ability to pay for this land if it is sold. The second one is as this land has come into existence, the bank and Jones Farm Tenant Act back in the early thirties or in the thirties and forties, it was purchased land and then turned over to grazing associations to manage along with their AFCS offices.

Now a lot of time and effort was put into these lands by these ranchers to restabilize the cover, and then to stabilize the local communities. Now as we talk to asset management and to parts of the Government, as it is, we are told that our efforts will not be recognized. As these units were put together, each base unit has a base property, had to have a certain percentage of base property, and then with that base property he was allocated a permit. And that permit is tied to one piece of his property.

The Forest Service or the Department of Agriculture does not recognize that as a right. They recognize that grazing permit only as a privilege, yet IRS recognizes that as a right; and therefore, in estate they tax that right and therefore putting a value upon it. But as we talk of sale possibly, we have no assurance that our value that we have in that land or that we have put on that land by IRS or whomever, we are not entitled to a right to that grazing or to that land. And we think that this is wrong that if one part of the Government recognizes as a value, having a value, then the other part of the Government should also do so. Now I would suggest that as you look at asset management and that problem that you would consider this.

Senator **ANDREWS**. You made an excellent point, Mr. Wolff. Might you point out how far away you are from Fargo, Mr. Wolff?

Mr. **WOLFF**. About 340 miles. I live right on the North Dakota-South Dakota line.

Senator **ANDREWS**. I was telling Senator Leahy, while you were testifying, where you live. He can't understand that kind of distance in Vermont.

Senator **LEAHY**. You can't be 350 miles from anywhere else in Vermont and still be in Vermont.

Senator **ANDREWS**. That's the reason for this hearing; but, Mr. Wolff, let me also point out that I was, in the 1950's, a member of the Grasslands, the Cheyenne Valley Grazing Association. In fact, Joe Milton was my pasture mate down there. I know exactly what the problems are; and let me assure you that the Senate of the United States is not going to go along with this idea of selling off the grasslands except in those areas where the local Grassland Associations have some program to purchase them and want to purchase them and prices can be arranged at the type of level that farm ranchers can in effect afford.

I don't think you have to worry about that; and let me defer to my colleague, Senator Leahy, for his feeling on that. It's a trial balloon that's been floated out; but unless your local grazing association is in favor of it, and a few might be, it's not going to come about.

Senator **LEAHY**. I think it's safe to say that what Senator Andrews has said expresses really a bipartisan majority, at least in the Senate.

Mr. **WOLFF**. That is, you know, this is the biggest concern. We had quite a discussion at length at our annual meeting this fall; and the biggest thing that bothered us all was the fact that we would be unable to, because of the economic times, would be unable to purchase this land. And we felt that the management that had been—has been done on the land up to this point, has been very sound management. It's taken care of the land. It's doing what it should do. The land is producing good quality red meat which is important to this Nation as well as to the local communities.

Senator **ANDREWS**. And your testimony which is now in the record that the IRS capitalizes your grazing right, I think goes a long way to give us the ammunition we need if anybody does come up trying to want to sell that off in an area where the grazing association doesn't want to sell it. So your testimony today has helped a lot in the cause of your grazing association. We appreciate it very much. Thank you for participating.

Mr. **WOLFF**. Thank you very much.

Mr. **CHRISTENSON**. Thank you, Mr. Wolff.

We'll go to line 3, Senator. We have Francis Sears on the line, a retired farmer from Petersburg.

You're on the air, Mr. Sears, and once again would you state your name and address for the record, please?

Mr. SEARS. This is Francis Sears of Petersburg, N. Dak.; and hello, Mark Andrews and Mr. Leahy.

Senator ANDREWS. Nice of you to testify, Mr. Sears. You can proceed and summarize your testimony, and we'll be glad to hear it.

STATEMENT OF FRANCIS SEARS, MEMBER, FAMILY FARM COMMITTEE, NORTH DAKOTA DEPARTMENT OF AGRICULTURE, PETERSBURG, N. DAK.

Mr. SEARS. Will do.[1] I'm a member of the Family Farm Committee of the North Dakota Department of Agriculture which seeks to get legislation for beginning farmers; and we have done a number of things from our own legislature in terms of tax incentives for people who would rent their land to beginning farmers and either sell their land or rent their land when the time comes for them to dispose of it, or we'd like to encourage older folks to get rid of the land—get it into the hands of the younger generation. And we have a resolution out of our legislature this winter which seeks to get the National Congress to mandate a similar kind of program out of the IRS, Internal Revenue, where tax incentives would be given to beginning farmers and we'd get some similar assistance. Otherwise, young folks who wish to start farming are at the mercy of the market; and the market goes to the highest bidder when it comes to renting or selling land, and we think in the interest of communities in North Dakota that we should be doing something about that.

It's one thing, you know, to boast about the product of the free enterprise system. But over time, this country has recognized that free enterprise sometimes, given the free rein, could abuse things; and we think sometimes that's happened in agriculture. And over time the programs, the Federal programs, haven't always recognized the lack of fairness when programs are administered. I think they were conceived properly, but they weren't administered properly sometimes; and the larger benefits went to the larger producer, larger farmer, and that hasn't seemed fair.

So I would ask you if this seems reasonable and, given this time of short revenues, whether the Internal Revenue could make some concessions in terms of giving incentive to landowners who would get their land in the hands of beginning farmers. Maybe we could get H. R. Block to work with Secretary Block.

Senator ANDREWS. That would be a good suggestion, Mr. Sears. Actually there are two or three things that have been done in the past and are moving in the law now.

One is the increased exemption from the State taxes of farmland when you transfer from one generation to the other. I think it's extremely important to note that; and I also think we have to address, somehow or another, the IRS's evaluation of a quarter section of land in a given township.

If somebody wants to come in and be darn fool enough to pay three times what that land is worth, it isn't fair to then come in and value a quarter in the same township at that high value if a father wants to sell to a son; or if a younger man wants to buy from a willing farmer in the community who would like to sell it to some young person coming along at a price they can afford to pay. We have tried to change that, and we've made some success.

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[1] See p. 53 for the prepared statement of Mr. Sears.

The next ruling, I think if Senator Leahy can comment on this; he may have other suggestions, that I would like to see come is if something happens and you die, your estate is valued, if you're a farmer, the same way that it would be valued if you're an automobile dealer or a hardware store owner or if you want to sell it to someone. It's valued at the same way. The Internal Revenue Service says that it can be valued at seven times net, and that's fair because any business ought to return 12 or 14 percent return on investment. So if you owned the John Deere dealership and you want to sell it to your son or your daughter or if you leave it in your estate, it's valued at seven times net. If we could get the same kind of rule on a farm, I think it would help a whale of a lot.

You know, a farm is a small business; and it's idiotic to take farmland and price it at a price that's not derived by its value for producing crops but rather as a hedge against inflation for somebody who comes out and wants to invest it. That's what's happened and I'm sure it's happened in Vermont as it's happened in North Dakota. That's a suggestion, Mr. Sears, that we're working on.

Senator Leahy may have comments on either that or some other idea.

Senator **Leahy**. I think it's a good point. We talk about all the programs we have to keep going. Those have an expense in and of themselves. The amount that we gain on these taxes, whether it's on the sale you describe or whether it's inheritance tax, the amount we gain is so small it doesn't begin to match to try to keep those farms in existence to begin with. We've got to realize that we're dealing with something with a very small net return but of enormous value to us to keep that farmland there as somebody sells, and we're losing it too fast anyway.

Mr. **Sears**. No, sir; but they don't make the person who knows the land in that second or third generation. If you can sustain him on the land and then land and community are served.

Senator **Andrews**. Thank you for a great contribution.

Mr. **Sears**. One brief further comment. It seems really stupid to me that when we are forced to go broke on the land or in the farming communities it is unacceptable. People can be considered unemployed and receive unemployment benefits when they go to the larger cities. My logic doesn't dictate that someone shouldn't remain in this community and receive the same kinds of consideration that someone might receive when he's dislocated in terms of large industry.

Mr. **Christenson**. That's an excellent point, Mr. Sears.

We're going to break away. This is a live telecast of an official Senate Subcommittee on Rural Development, Oversight, and Investigation hearing; and we'll be back after station identification with our two Senators and more testimony.

[Whereupon, a recess was taken.]

Mr. **Christenson**. Welcome back to our live telecast on Prairie Public Television of an official U.S. Senate hearing of the Agriculture Subcommittee on Rural Development, Oversight, and Investigation.

The hearing is being chaired by subcommittee chairman, Senator Mark Andrews of North Dakota, and with him is Senator Patrick J. Leahy of Vermont, a member of the subcommittee.

I would like to relay once again that the record will be kept open for 2 weeks following this hearing today. Those of you watching who may wish to send in written testimony can do so and send your testimony to Hearing Testimony; Senator Mark Andrews; Washington, D.C. 20510.

We have more people to testify and here again is Senator Mark Andrews.

Senator ANDREWS. Thank you, Boyd. On this section of the program we have an economic panel to discuss economics, farm loans, business development, marketing, initiatives, and a whole host of other things. To lead off that panel is Myron Just, former commissioner of agriculture in North Dakota, and a farmer of Berlin, N. Dak.

Myron, welcome to the panel. We'll be glad to hear your statement.

STATEMENT OF MYRON JUST, FORMER NORTH DAKOTA COMMISSIONER OF AGRICULTURE, BERLIN, N. DAK.

Mr. JUST. Thank you, Senator; and nice to meet you, Senator Leahy. It's a pleasure for me to be here today and I commend you for bringing this hearing, excuse me, out into the country. As Winston Churchill said, I guess, "Democracy is the most difficult form of government." And that's because it requires the participation of people, and I think things like this make that participation more possible; and so I commend you for doing that.

I enjoyed your previous comments in the first half hour and I think indicated a good grasp of some of the basic problems that we're confronting in agriculture. I guess in listening to some of the other speakers and your comments, there has been a lot of discussion about credit and credit is desperately needed as we enter the planting season in the spring grain planting area of the country. It seems to me that we can overstress that and, too, that really what we need is—rather than what we would use—is income; and a lot of the problem will be self-correcting. I think if we can get some income back, and we've got people from various banks on the panel; I think everybody's collateral would look better. The repayment would look better, and that would resolve a lot of those problems.

A couple of quick points on some legislation. I commend you, Senator Andrews, I understand that you have some legislation regarding the storage rates to compensate farmers for farm-stored grain. I think this is something that would happen mostly in North Dakota. North Dakota does store a lot of grain, and I've always felt that it was discriminating to pay commercial storage substantially more for storage than farmers are paid; and frankly, I think that it could be legally challenged, and it will probably be illegal.

A second point is there is an export equity act that I think is pending in Congress which would assist the movement of our grain to overseas, and I'd encourage your support of that.

More generally, I'd like to speak on what I think are some of the root causes that have evolved over the last 10 years, particularly, to get us to where the serious economic problems that I think confront us in agriculture today. And that is, as you said, agriculture and the economy in North Dakota and the United States are absolutely inseparable.

We hear a lot of States talking about being the most agricultural State in the Union. North Dakota says it. South Dakota says it. Iowa says it, and now even the innovating State of California with the second largest agriculture says that. But I guess, you know, when we talk in terms of generating income, and this is an economy panel, it's obvious that we probably have 500 million bushels of wheat in North Dakota. If you just took one single commodity, and you put $4 or $5 a bushel—$4 a bushel on that, you would generate $2 billion in the State just like that. So if you could put a dollar or more on a bushel of wheat, you've generated $500 million in the economy just like that in every community and every nook and cranny and almost every farm; and then if you translated that into corn, sunflowers, barley, beef, then, you know, it's obvious to see why agriculture is so basic. And you take that throughout the country with 8 or 9 billion bushels of corn, 2 or 3 billion bushels of wheat, you can see why uplifting agriculture prices generates the economy so quickly; and in effect, of course, all of the agribusiness sector.

One of the things that's concerned me in recent years is the kind of whipsawing I think we've seen in agriculture from lack of understanding. I think within the media, and I'm critical of them from the Wall Street Journal to Business Week to the Washington Post, I think, you know, agriculture, unless it's really booming like the seventies—I remember seeing a story in Business Week that said agriculture was America's No. 1 growth industry. And so they were really high on it and then it got a lot of attention. But more recently we see articles in Wall Street Journal and Forbes and others that are very critical of the kind of PIK blended export programs and other things that they see as direct subsidies to agriculture. And so I frankly don't think that there's a very good understanding of how all of this ties into the whole basic economy.

The thing I'm getting to is I think that foreign policy in this country has simply become the precursor to farm policy. We, I think, have a lot of knee jerk reactions in Washington, throughout the country, to foreign problems; but I think they fail to address what are the elements that really brought about these problems, and I say that because as someone said earlier, we've gone through a series of four embargoes in the last 10 years, the Nixon, Ford, Carter, and Reagan embargoes or de facto embargoes, whatever you call them, some of them, then, the early ones were for national security reasons. The consumer boycotts, the longshoremen, other labor groups got involved and got them on it, soybeans, beef, and others. We've more recently had them for international security reasons, the happenings in Poland and Afghanistan and so on.

And then even more recently we've had the Taiwan Relation Act which has screwed up our sales with China, the single largest wheat customer of ours in recent years. Now the textile thing has gotten involved there so the farmer has really been whipsawed by these things, and I don't think that we're getting at the root of these problems and certainly the nonfarm public doesn't understand how the farmer is being whipsawed by this; and the farmer is actually paying twice. We've paid for it in terms of the lost markets and then in the international politics where we increase the defense budgets to compensate for national security problems and so we're paying $200 to $300 billion there, up to $1½ trillion over the next 4 years. At the same time we're gutting the very kind of markets that we could have with these kinds of people. I'm wondering if it would be possible—you know, a few years ago we read headlines in papers, particularly in the eastern press who said the agriculture policy was simply too important to be left to farmers and so the State Department really got involved. I think we need agriculture more involved in the State Department and I've heard you people speak to that.

Senator LEAHY. Amen to that one.

Mr. JUST. But I'm wondering if we don't need a Senate and House foreign relations policy committee, maybe even a joint committee as there is a joint economic committee which somehow can convince the striped pants, Foggy Bottom Pentagon people that you can't whipsaw the farmer and then still have a healthy economy, rural or urban, at the same time.

And so the result of this has been, of course, that not only the farmer has been hurt but all of agribusiness. Agriculture contributes 25 percent of the gross national product, over 25 percent of the gross national product in this country. It's the single largest industry in this country. And so as a result of these series of international events that have cut the rug out from farmers, we've seen International Harvester in trouble, Massey-Ferguson, White Motor Co., Chrysler, many of them farm related; and they simply will not get well until the farmer gets well.

And in "Main Street" in North Dakota it's particularly important. These people, up and down Main Street, will not get well until the farmer has some income to spend, and we see it happening in the State governments and in legislatures now. Everybody's revenues have been cut because national industry is running at under 70 percent of capacity. We finally had to come in with PIK program's effort to drastically cut agriculture production because we're not getting rid of the product, because we've destroyed good markets that we've built up over the years; and I've got some figures from somebody the other day that we've spent—Foreign Agricultural Service, for example, spent over a $100 million in market development in the fiscal years 1982 and 1983. Farmers themselves in commodity goods have additionally spent hundreds of millions of dollars, and so we've undercut all of that.

And I guess what I'm suggesting is somehow I think that Congress needs to get a more realistic approach to international economics, international policies so that we don't have one segment that takes an action, whether it be in textile in China or the Taiwan Relation Act or whether it be a Soviet embargo, that just drastically destroys the economy of another sector. And I think we simply can't go on with those kinds of things, and that's basically our problem in agriculture that we've geared up for an export market. We're totally dependent on it. The markets are bullish when they're active. They're absolutely bearish when they're not, but they're caused by elements outside of our control.

Senator **Andrews**. You made an excellent point. As a matter of fact, Scott Reston, from the New York Times, did a column about 2 weeks ago, the first time I've ever seen one in the eastern magazines, talking about the importance of agriculture in our foreign policy. I liked it so much I took it to the floor and made a little pitch on the floor and put it in the record, and some of my colleagues told me about it. They said, "This guy's interested in a good farm article."

I think—Myron, you've given me an idea. I think what I'll do is—I haven't done a congressional agri-reprint for a long time—I think I'll reprint it and send it around the State because they're beginning to think out East. And, Fred, as you mentioned tying our foreign policy and agricultural policy together. That's what we're going to have to work on.

Senator Leahy.

Senator **Leahy**. Legislation has just recently been introduced to create an Assistant Secretary of State for Agriculture. I intend to support that legislation. I think what you said that foreign policy is the precursor to agriculture policy, you're absolutely right. I wish sometimes you'd get both the State Department and the Defense Department together to talk about setting these other policies as they often do. Certainly there has not been anywhere enough interrelationship between the State Department and the U.S. Department of Agriculture. We need a lot more.

I think an Assistant Secretary of State for agriculture matters is absolutely essential. It is a major part of our market. Everything you said I concur with.

Senator **Andrews**. In fact, for years, as my colleague from Vermont knows, the agriculture attaché was not given counselor status. So he would be in our Embassy sitting below the salt while the fellow representing the Commerce Department or the Defense Department, pushing additions and all the rest, were given counselor status. So when they invited ministers to come to represent the Nation, everybody came except those selling farm goods which after all were the largest sale items. It just doesn't make any sense.

Our next witness is Tim Dodd who is the plant supervisor of Noodles by Leonardo of Cando, a part of that great success story where people in the community put together a plant to take North Dakota raw materials and make it into a finished product, quality control, and they market it all over the Midwest; and I hope all over the country eventually with the assurance that it's made from the best resources you can possibly get. Nice to have you here, Tim.

STATEMENT OF TIMOTHY J. DODD, PLANT SUPERINTENDENT, NOODLES BY LEONARDO, INC., CANDO, N. DAK.

Mr. **Dodd**. Thank you, Senator Andrews and Senator Leahy.[1]

North Dakota is a State that ranks among the top in agriculture production and close to the bottom in manufactured products. It is a State that is standing by watching the largest industry, agriculture, flow from the hands of many to the grasp of few, causing the small rural communities to decline in population, which distresses their businesses, schools, and governments. Being a leader in agriculture production is no excuse to let other States reap the profits from manufacturing North Dakota's raw materials into the high-valued, finished product. Rural North Dakota can reverse these trends and develop a sound, flourishing economy by erecting processing plants in the areas where the raw materials are produced. Some processing plants have been built in North Dakota in recent years, but most of them have been built either close to or in urban areas, thus not directly benefiting small rural communities.

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[1] See p. 54 for the prepared statement of Mr. Dodd.

The Federal Government recognizes the migration of people from the rural areas to urban areas by offering the urban development action grant program to cities with a population of 50,000 or less. Since 1978, the Federal Government has appropriated $100 million each year to UDAG. In 5 years, North Dakota has had only five projects approved for UDAG funding. These projects receive $2.2 million from the UDAG program which is only 0.4 percent of the total funds allocated to UDAG by the Federal Government. The study by the General Accounting Office indicates that very few cities with a population of 50,000 or less have the technical know-how to do the legwork necessary to put together an approved UDAG project. I'd like to give an example of a small city that does have the technical know-how which is Cando, N. Dak., where I'm from, with a population of 1,500, has put together two projects consisting of UDAG funding.

They did so by creating a corporation called the Durum Triangle Industrial Park Corp., which consists of members from local businesses. They created over 125 jobs in the community by developing these two projects, which are the Noodles by Leonardo pasta plant and Cando Egg. Since both of these projects process locally grown raw materials, they in turn can benefit from the Federal farm subsidy programs.

One program that would benefit the Noodles by Leonardo pasta plant, which processes locally grown Durum wheat into finished pasta, was suggested to the Federal Government by the North Dakota State Wheat Commission and the U.S. Durum Growers' Association. It is called export payment in kind for Durum pasta program and would subsidize Durum wheat that would only be processed into export pasta, enabling U.S. pasta manufacturers to compete in the world pasta market. This idea would parallel the payment-in-kind program for Hard wheat products that the Federal Government already implemented by selling over 277,000 tons of Hard wheat flour, using over 12 million bushels of payment-in-kind wheat, to Egypt.

Lately the public is hearing about the Italians stealing U.S. pasta sales with cutrate imported pasta, which, in turn, reduces the amount of U.S. Durum processed into domestic pasta. The Italians are supposedly subsidizing the Durum wheat in the pasta, which amounts to 12 cents per pound of pasta, and underselling all the eastern pasta manufacturers by 10 cents to 15 cents per package.

The National Pasta Association has filed a complaint with the U.S. Trade Representative's Office claiming that the subsidies violate international trade agreements between the United States and the European Economic Community. The EEC claims it is subsidizing the wheat in the pasta, not pasta itself, and that the subsidies aren't in conflict with the trade agreement. If this is true, why not fight fire with fire and implement the PIK for Durum pasta program, thus letting U.S. pasta manufacturers compete with the Italians in the world market.

There are many foreign countries that are interested in importing U.S. pasta. For example, Japan, with a population of 110 million people, has increased their pasta imports by an average of 98 percent per year for the last 5 years. Due to the subsidies, the Italians are importing 99.1 percent of all the pasta imported in Japan. The United States makes up only 0.7 percent of the Japanese imports. From this example one can see that the export PIK for pasta program is, if implemented, can lend itself to the concept of increasing U.S. exports of value-added products.

Another program suggested to the Federal Government by the North Dakota State Wheat Commission and the U.S. Durum Growers Association is a Durum export entitlement certificate program. This program will allow firms active in the Durum export market to bid Commodity Credit Corporation for Durum export entitlement certificates. In theory, the bid would be a per bushel amount, necessary to sell Durum at a competitive price in the world marketplace. The value of certificates should be approximately equal to the difference in the United States Durum price and the lower price of Durum available from other origins in the export market.

Both these programs suggested by the North Dakota State Wheat Commission and the U.S. Durum Growers' Association can directly enhance the economic development of rural North Dakota by satisfying the goals of North Dakota Durum growers, millers, and pasta producers.

Thank you.

Senator **Andrews**. Thank you for an excellent statement, Mr. Dodd. You feel that your acceptance is due to the fact that you have a lower cost of production being located close to the source of the Durum wheat, or is due to the fact that because you're close to Durum wheat you can provide a quality control that no one else can when they're that far removed?

Mr. **Dodd**. I think we can provide both. Being in rural North Dakota, we found we can select Durum both by quality and by price and eliminate the transportation to the cities to process the pasta. First it goes to the mills to make the semolina and then shipped to another city or processing plant and then on to the market, whereas we just bring wheat into our firm. We process the Durum into semolina in the same location as we process the semolina and the pasta. We eliminate all the middlemen. Then we truck our pasta to markets all across the United States; and we, as you said before, have shipped across the whole United States. We've been in every State on a private label business.

Senator **Andrews**. Thank you very much. Senator Leahy?

Senator **Leahy**. Why didn't the PIK flour sale to Egypt benefit the North Dakota flour mills?

Mr. **Dodd**. Well, basically all the Egyptian flour sale required a standard of 48 ash and a 10-percent protein. North Dakota grows primarily Durum and Hard Red Spring. Hard Red Winter wheat would be ideal for this flour sale which is, as you know, all grown down in Oklahoma, Nebraska, and Kansas. Well, in doing so they've eliminated the bid from the North Dakota mills completely and this is another reason where the PIK for Durum pasta or a PIK for Durum semolina can be beneficial to the State of North Dakota. We could then compete with the southern and eastern mills, which bring in Hard Red Spring wheat from other States and blend it with Hard Red Winter wheat to get the protein right where they want it.

Senator ANDREWS. Thank you, Senator. Thank you, Tim.

Our next guest is John McGinley who is the president of the North Dakota Bankers' Association and the president of the American State Bank out at Williston. John's been involved in agricultural credit for a long time. His bank is a leader in livestock loans, farm loans out in that part of the country.

Glad to have you here, John.

STATEMENT OF JOHN M. McGINLEY, PRESIDENT, NORTH DAKOTA BANKERS ASSOCIATION

Mr. McGINLEY. Thank you, Senator, it's great to have you back in North Dakota; and Senator Leahy, it's great to have you out in our great State of North Dakota.

Senator LEAHY. Thank you very much. I'm enjoying it.

Mr. McGINLEY. Good.

Gentlemen, I'd like to take just a little different tact. We've talked about agriculture here, and I've submitted in length my testimony that will be an official part of the minutes.[1] At this time I'd just like to give you just a little view of what bankers are looking at the present time, and I guess I'd have to start with the word resiliency. Resiliency, if there is one word to describe the current status and outlook for North Dakota banking, that's the word resiliency.

You know, when one takes a few moments to look back, it will be recalled that banking has experienced many trying times. We've seen our cost increase dramatically into rapidly escalating interest rates, and competition has demanded that we pay market rates just to retain existing deposits let alone attract new ones. This in most cases has brought about significantly reduced earnings for banks, not only in North Dakota but nationally. In addition to paying more for a traditional time deposit, we are now having to pay those market rates on almost all of our deposits; and at the present time about the only noninterest-earning checking accounts left in our banks are business accounts. Now this is quite a change from not too many years ago when most banks had 80 percent of their deposits in checking accounts and then accounts and 20 percent in 5-percent passbook savings accounts.

In recent years we've also been plagued by the problem of not having adequate loan funds, and this situation was aggravated by having many individuals send their dollars out of State to the money market funds to get higher rates of interest; but they still wanted to do their borrowing with us. This created a careful, or a need to carefully, ration the available loan dollars, and fortunately today the situation has improved and most North Dakota banks do have adequate funds for the loans at a somewhat lesser rate.

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[1] See p. 56 for the prepared statement of Mr. McGinley.

Banking costs have been negatively impacted as well by overzealous regulations on the part of the Federal Government. Laws such as truth in lending and the equal credit opportunity are entirely well intentioned, but I seriously question how much actual benefit that the consumers receive when the vast investment that banks have been forced to make in paperwork and personnel to be in compliance with these far-reaching regulations.

We are about to see what could be the worst example of such an overregulation, and I'm referring to the law that is presently scheduled to go into effect on July 1 to require financial institutions to withhold 10 percent of income on all interest and dividends. I honestly believe that the thousands and thousands of letters, which you gentlemen received and the reporting to Congress, would not have been forthcoming unless individuals really had serious thoughts about this. And let me state that the strongest public outcry in this matter will probably start coming in about the end of 1983 if withholding actually begins. These requirements must be repealed and consideration should be given to enacting legislation to exempt interest and dividend income from taxation, a step toward genuine economic stimulation.

I would like also to touch upon the fears that are too often expressed in the media about failing banks. There were 42 failures of FDIC-insured banks in 1982; and it is likely, according to FDIC Chairman William Isaac, that the number could be higher in 1983. I think we must keep in mind that the effect on banks of an economic recession is delayed; and that as we see problems in this area, it will not signal more economic difficulties but only the last negative results of the most recent recession. I guess I should be honest and say that Mr. Isaac has also stated that not one of the failed banks from last year or the banks that are currently in jeopardy could be called well run. These banks got into trouble because they were run by poor operators. And in the words of Mr. Isaac, "They cannot blame the economy for their difficulty."

Another change coming up which I would like to mention concerns the planned public disclosure on past-due loans. Like others, these are a well-intentioned regulation, but I feel that some uninformed cub reporter could do permanent harm to an institution in misinterpreting these figures. So let's be realistic. Financial institutions do not go through periods of recession without having some effect on the quality of loans. We have to expect that, and this is not true in private. These loans will necessarily affect the safety of the bank.

So in closing, let me remind you that as the decade of the 1980's began we heard that vast numbers of banks would be falling by the wayside, merging; and that by 1980, the 50,000 existing banks in 1980 would be down to 5,000. The decade of the 1980's is now nearly 35 percent complete and there still are approximately 15,000 banks nationally. As I stated at the outset, banking is fortunately very resilient.

Thank you, gentlemen.

Senator **Andrews**. I appreciate that excellent statement. The question, of course, that we ought to ask you, John; you've answered most of the questions, Why aren't interest rates going to come down?

Mr. **McGinley**. Well, that's a good question.

Senator **Andrews**. I have 700 head of losers out there that I'm paying interest on.

Mr. **McGinley**. That's a real good question, and it's been asked by the President; and surprisingly, Volcker, and this does surprise me.

Everybody knows that we have had historically high interest rates through 1980 and 1981; and, of course, this was all orchestrated by the Federal Reserve and their need to overcome inflation.

Senator **Andrews**. Slowly——

Mr. **McGinley**. But principally, yes; and I guess I have to admire Mr. Volcker, this is not a very popular stance to take, and he did it; and he stuck with it, and I think he did a good job and he accomplished it. But I guess we have to look at some other things that happened, too.

During this time when these rates are raising to historic highs, the money that we paid on savings are raising to historic highs; and during those 2 or 3 years, the most attractive instrument that we had as far as savings was concerned was a 3-month instrument. Now just before I left our bank on Thursday, I checked and we're paying anywhere from 9 to 17.2 on 30-month certificates; and we have a lot of them on the books, and every bank in the country has a lot of them on the books. And it's quite difficult to get down to 9 and 10 percent on anything. You're just going to waste all that interest.

In addition to that, and we're happy this happened, we have two new instruments that came into effect in the last 2 months, in December and January. The insured money market account and the super NOW account, and these are great; and we're happy to be paying these kinds of rates to our customers. They deserve it. By the same token, they're expensive; and there is no magic wand that you can wave. If you're going to pay high rates, you're going to have to charge higher rates.

So personally, I think that rates are going to come down. I think they're going to come down more slowly than most people think they will; and personally, that maybe they will never get down to the rates that we saw in the 1970's and the 1960's.

Senator **Leahy**. Mr. McGinley, are these rates ever going to come down if we continue to have $200 million deficits? Can we think that those will come down if we have to borrow, say primarily, all the money necessary for a 90-percent annual increase in defense spending in the last 4 or 5 years?

Mr. **McGinley**. I thoroughly agree with you. You're asking a question, and I think you've answered yourself in the case.

Senator **Leahy**. Right. Just trying to do that to save time.

Senator **Andrews**. He was saving me. One of the problems of running a senatorial hearing when we do it down there, we don't start at 10 o'clock and we're done at noon. It always goes over. The thing is with programing coming up on Prairie Public TV, there is no way we can run over; so we don't have that luxury.

Our next witness is Norm Weckerly. He's a farmer, elevator operator, former member of the North Dakota Wheat Commission, and really an expert on agricultural matters. He's taken part in a whole host of things.

Norm, glad to have you here.

Mr. **Weckerly**. Good afternoon.

Senator **Andrews**. Let me assure you your testimony will be in the record as though you uttered every word of it.[1]

STATEMENT OF NORMAN WECKERLY, OWNER AND PRESIDENT, HURDSFIELD GRAIN CO.

Mr. **Weckerly**. Good afternoon, Senator Andrews and Senator Leahy.

Since I'm the last one to speak, of course, a lot of these things may have been already said; but I would like to at least emphasize some of the things that I feel are the most important, and it's going to be generalized. I'm not going to zero in. You can ask the more specific questions, but along the theme of the rural development, rural development for all of the United States, in particular in North Dakota, rural development has to be done in consideration of U.S. foreign trade policy. Agriculture and rural areas, urban areas, can produce more than we can consume. Much less comes into North Dakota than goes out, and that has to go out someplace.

Myron stated it so well that the diplomats, our foreign policy people, just have to consider the economic impact of political decisions that are made. We can't afford the luxury of ignoring the economic impact of these political decisions that are made. Our high price dollar, our high interest rate, the economic problems that we have are caused by our inability to compete in the world market. The United States must have a consistent selling position for all of our products abroad. We can't have any more ag embargoes. We can't have any more industrial pipeline embargoes. They just cut the heart right out of our economy.

Today along with the initiation of some agriculture subsidies, primarily the Egyptian flour sale that you mentioned, there is talk that we cannot engage in a trade war, that it will hurt us. I will make the statement that we're always in a trade war. If we aren't, we better be because we're competing with other countries. The only problem that we have is it seems like we're always retreating. We are not going ahead. These embargoes—we're retreating from that trade war, and we gave our markets away. The increased agriculture production in Argentina, Canada, and the European Economic Community, we can't blame them, we backed away from it. The best news the European Community had was our Russian embargo. They just pulled it all in.

But getting back to the rural development, we can't just have rural development with grants and with loans. We have to have rural developments that are based upon earnings. We had too much credit in the 1970's. We thought that we could take care of the lack of earnings with an increase in credit from the impact of the Russian embargo, from the economic impact of just the overall agriculture commodity pricing going down. Credit doesn't guarantee that success.

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[1] See p. 57 for the prepared statement of Mr. Weckerly.

Another problem that I feel hasn't been touched on is your tremendous escalation in land prices and business capitalization during the 1970's. We can't guarantee everyone's success or there is no limit to inflation. Credit, for a while, seemed to do that. Instead of FmHA being the lender of last resort, they were the lender of all resorts. It was great to be a banker in the 1970's. If you had a loan that was just a little bit shaky, just pass it down to FmHA. That's what causes a lot of escalation in prices.

So we do need—we must have the opportunity to bail out here if we're going to have the opportunity to succeed, but we certainly need prudent credit. We need more credit now especially when the area's operating loans, as you mentioned which was authorized, putting many of our bankers in very tough situations where some customers do have good credit with us yet but are close enough that if our bank examiners come and say, "Hey, that's enough for that guy." But yet he can survive with some changes, and we're seeing that happen. Some of these are very good.

Another area I'd like to touch where there's been a lot of involvement by the Government, some good and some bad, is in the area of transportation. Farmers' transportation is probably their second biggest cost compared to interest or maybe it's No. 1. We've had some good impact from the deregulation in the railroads, I feel. I hope that we haven't gone too far. We maybe ought to consider some changes in the Staggers Act. I think especially to protect some smaller shippers in the future, not right now; but if we get to where everything is supposed to move in 52-car units in North Dakota, North Dakota is going to be in trouble with about 6 or 8 terminals.

Another area of transportation that concerns me is all the proposed user charges from water and our waterways, especially in this area of the country where the produce from our market, railway and water use fees are a concern. We cannot have a strong farm and rural economy unless we first have the Federal Government act to place these points that I've mentioned into place. The key is an aggressive farm trade policy and then these other things can fall into place.

Thank you, Senator.

Senator **Andrews**. Thanks Norm. You do an excellent job. That should be a good cleanup here.

Senator **Leahy**. That's right, absolutely.

Mr. **Christenson**. We have a phone call. Richard Delare from Minot.

You're on the air, Richard; and once again, would you state your name and address for the record, please, before you make your testimony?

STATEMENT OF RICHARD DELARE, MINOT, N. DAK.

Mr. **Delare**. OK. My name is Richard Delare from Route 3, Minot, N. Dak. My wife and I have a family-size farm of 553 acres, and we've been farming approximately 14 years. First of all, I want to thank Senator Andrews and Senator Leahy and appreciate the opportunity to be heard during the agricultural investigative hearing.

As far as the farm economy and the crisis, I believe through the program we've touched on all that. I'm going to skip that, and I'm going to talk about farm foreclosures. My wife and I were forced into the Farmers Home Administration in the year of 1978; and having to do with the farm foreclosures, I want to mention that back in 1980, one of the Farmers Home Administration supervisors had said to me he hoped the farm economy would turn around soon because it would surely make his job a lot easier; and I certainly have to agree with him. And then now in 1982, the Farmers Home Administration, which is the credit arm of the Government, had confiscated our machinery and equipment and sold it at a Government auction and which resulted in a tremendous loss to myself and my family; and that was just to pay the interest.

Also at this time it looks like we could lose our home. I myself have personally traveled to many other States that requested other farmers and ranchers to help them with their predicament. In naming some is Nevada, Montana, Colorado, and Minnesota, and our own Dakotas here; and the situation and the story is all the same. The farmers tell me that our backs are against a wall.

From what I observe, all these people are good, honest, hard-working American citizens. People are really trying to do the very best.

Here the other day after I was thinking about this hearing, I was trying to think of a comparison to farming; and it's really quite difficult. I come up with this. An operator or an engineer of a locomotive is not expected to buy the train in order to have a job running it. However, a farmer has to buy his machinery, home, and land; and I cannot see how the Government can expect him to pay for it in just a few short years. And I feel we need some definite policy changes in this area. My wife and I, we still have 35 years left to pay on our initial loan that we have acquired at the Farmers Home Administration.

In summarizing this I was going to say, a few years ago several of us from Washington, D.C., lobbying for farm prices and farm programs; and I do want to add to that we are unpaid lobbyists and during a news interview, a couple of farmers were asked what weapon we had going for us to win what we needed; and one farmer replied, "Food." And at that time my response was then and now, simply the truth that we have to have some changes in our farm policy.

Thank you.

Senator **ANDREWS.** Thank you very much for an excellent statement. You found that the opportunities for operating loan funds are simply not there because of some drought or other disasters or just because of the low price level or has it been a combination of all?

Mr. **DELARE.** Mr. Andrews, it has been a combination of all of it. The funds not being there and in our own area here, we have had several years of drought; and, of course, that took your equity position to where you didn't show payability.

Senator **ANDREWS.** That's right. Your point that the main engineer shouldn't have to buy the train was an excellent one; and not only that but every generation comes along, and they have to rebuy it. And they have to pay capital gains on whatever else along the line. That's an extremely difficult drain.

Senator Leahy, do you have a question to ask?

Senator **LEAHY.** No; I think that his testimony speaks very much for itself. Unfortunately, I'm hearing so many similar things back in our own part of the country and throughout New England; and it is distressing, and I think the long-term effects are going to be very, very bad for the country.

Senator **Andrews**. Thank you, Mr. Delare.

Mr. **Christenson**. Yes; thank you for your phone call.

Doug Trom from Casselton. You're on the air, Doug; and once again, will you state your name and your address for the record, please?

Mr. **Trom**. OK. I'm Doug Trom. I'd like to make a correction. I'm not from Casselton. I'm from Davenport, N. Dak.

Senator **Andrews**. That's just a little bit south of Davenport.

STATEMENT OF DOUG TROM, CASSELTON STATE BANK, DAVENPORT, N. DAK.

Mr. **Trom**. I'm an ag lender at the Casselton State Bank. I also carry on a farm operation at Davenport. I used to work for the Farmers Home Administration as county supervisor here in Cass County, and I would like to touch on the question of whether or not Congress should impose a moratorium on FmHA farm foreclosures.

You must realize that some farmers are poor producers or, in some cases, they purchase expensive equipment. And then the same farmers cannot make their payments. If they cannot successfully manage their business, and farming is a business, then I don't believe the taxpayers of this country should have to support their mismanagement.

Farmers Home has been going the country mile with their borrowers. Anyone in the ag lending profession will agree. Farmers Home should be no different than any other farm lender. If the farmer does not meet his payments or more importantly cooperate with the lender, then the lender must have a right to take whatever actions are necessary to protect their interest. If this can't happen, then the farmers' credit sources are going to stop making loans that are uncollectible. I do not believe that a handful of unsuccessful farmers should jeopardize the credit sources for the majority.

The people in the Farmers Home Administration, who are making these difficult decisions regarding farm foreclosures, do not receive any type of reward for what they're doing; but they do have their jobs to do, one that involves protecting public funds and property. They must have valid reasons for what they're doing. Otherwise, why would they put up with all the harassment.

If a moratorium is enforced, it will be detrimental to agriculture, our family farms, and society in general. I also believe that a moratorium lacks support in the general farming community.

What the farmers need is a price. They don't need more loans.

Senator **Andrews**. Thank you, Doug, for an excellent statement. You sure hit it right.

You made the statement that it hurts other farmers because they won't be able to get the loans if moratoriums are declared and people are pinned down. The thing that struck me as a farmer myself when they came by me on this moratorium business, if I get into trouble because of a drought or low prices or whatever else, I don't need a moratorium. A moratorium isn't going to do me any good if I can't pay back the money that I took to plant last year's crop. If they give me a moratorium, I'm sunk. I don't need a moratorium, I need additional money next year to go buy the seed and the fertilizer and the rest to get out of trouble. So a moratorium on its face is self-defeating the actual farmer. And that's why we stress, Senator Leahy and I both, the fact that we're making more money available for Farmers Home operating loans so that local community committees can advance the farmer more money, not rely on simple moratoriums which would be devastating.

Senator Leahy.

Senator LEAHY. No argument. I really have nothing to add to that.

Mr. CHRISTENSON. Thank you for your call, Mr. Trom.

Gary Kramlich from Minot. You're on the air, and will you again state your name and address for the record.

STATEMENT OF GARY KRAMLICH, CHAIRMAN, LEGISLATIVE COMMITTEE, NORTH DAKOTA ASSOCIATION OF BUILDERS, MINOT, N. DAK.

Mr. KRAMLICH. I'm Gary Kramlich from Minot, N. Dak., and a homebuilder, a developer and the legislative chairman for the North Dakota Home Builders.[1]

Senator, I understand that your constituents and listening audience realizes that the Farmers Home programs have separate budgets for each program that they have in their agency. Senator Andrews and Senator Leahy, the Farmers Home rural housing programs have been extremely effective to every system for rural housing mortgages throughout the United States with their counties office system. The Farmers Home bill housing programs are worthwhile for rural agriculture States not just for young families or elderly housing projects but nearly every sector of the housing needs in rural America.

Senator Andrews, North Dakota which has less than 1 percent of the Nation's population, received 12.8 percent of the Farmers Home fiscal year 1982 rural housing budget. More important is that this housing system works for rural America; 19 States receive less money than North Dakota's $49 million, and 11 States receive less rural housing program dollars than Senator Leahy's State of Vermont. I thank you both for keeping this a very viable program.

Senator ANDREWS. Maybe we're the experts in pork.

Mr. KRAMLICH. Well, Senator, I have a question of the Senator. Will the fiscal year 1984 rural housing program be funded at the same level as fiscal year 1983?

Senator ANDREWS. We anticipate they will, but we don't know yet because we haven't gotten to that.

The President, as you know, proposed a 67 percent cut in Farmers Home rural housing; and the Budget Committee, on which I served last week, put those dollars back in. So that's where we stand as of this moment.

Mr. KRAMLICH. Thank you very much for that, Senator Andrews; and you made it a very viable program for rural America.

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[1] See p. 60 for the prepared statement of Mr. Kramlich.

One concern of the housing industry is the administration's proposal to put in place rural housing block grants and eliminating housing from the county offices. What is that status?

Senator ANDREWS. That status is still waiting to find out what we do on the Agriculture Committee because that will come back to us in agriculture appropriations for dollar levels, but it's going to come back to us for reconciliation, the agriculture legislative committee, out of the Budget Committee. So we've got two cracks at it yet, and we don't know how it's going to come out; but I appreciate your testimony, Gary.

Mr. KRAMLICH. Thank you very much. I'll send the balance in writing.

Senator ANDREWS. Thank you.

Senator LEAHY. Thank you.

Mr. CHRISTENSON. Thank you.

Let's go to line 1. Would you state your name and address for the record, please? You're on the air.

STATEMENT OF CLAYTON LITCHFIELD, EXECUTIVE SECRETARY, AMERICAN ENERGY, INC., FORMAN, N. DAK.

Mr. LITCHFIELD. Yes, I'm Clayton Litchfield from Forman, N. Dak.; and I appreciate the opportunity to be able to give testimony today.[1] I'm the executive secretary of American Energy Inc. It's an 1,140-member farmer processing cooperative in the tristate area here, and we're diligently pursuing the financing of a 50-million gallon fuel alcohol plant.

I more or less feel like I'm summarizing all of the testimony that we've heard so far today. To use an all too often forgotten cliche, which really everybody has been saying today, is that as agriculture goes so goes the Nation.

Let's look at the current agriculture policy as of today in the form of the PIK program. You know, as a farmer it's a tremendous program; but what really is it doing to the Nation? Let's analyze it a bit.

It's estimated that the PIK program is going to cost between $18 and $20 billion with the sole purpose of reducing raw materials by 2 billion bushels. Now, the direct cost of this program is bad enough for the American taxpayers, but what are we actually doing? We're idling 82 million acres. What we're really doing is shutting down the basic income-generating segments of our entire economy. This lack of production as it travels through our economy would have amounted to over $100 billion of earned income or new revenue to the American people. Now, what could we have done with that money? What's been illustrated today on the program so far? What are the problems? Overproduction, soil conservation, economy, balance of trade, budget deficits, export markets, marketing, exchange rates, embargoes, energy independence, unemployment.

Let's stop for a minute and look at a solution that addresses all of these problems. Why don't all the agencies in Government form a coalition to move this Nation in the direction of an energy independent position of producing fuel alcohol; 160 50-million-gallon-fuel-alcohol plants could be paid for totally in 1 year at a cost of less than what we will be spending on the PIK program and it will do the same thing, reduce our carryover by 2 billion bushels. Now, think about that—160 plants paid for in 1 year at less than what it cost for the PIK program, and it would do the same thing; but look at the other benefits.

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[1] See p. 67 for a letter from Mr. Litchfield to Senator Andrews.

We put in place a long-term solution to our ever-present oversupply of grain. We produce 8 billion gallons of fuel representing 9 percent of our estimated 1980 usage. We produce 28.5 million tons of high quality protein feed in a condensed form, readily marketable to protein deficient nations. These two things alone would decrease our balance of trade deficits by over $12 billion.

We create 192,000 direct and indirect construction jobs, create 4,000 permanent operational and service related jobs; and the sad part about this whole above scenario is that it hasn't been done, and that a simple loan guarantee for high capacity efficient plants could put in place all of the above without costing the taxpayer 1 red cent.

Mr. **Christenson.** Mr. Litchfield, we're runing short on time. Could you summarize your remarks?

Mr. **Litchfield.** By using our overproduction our sales, creating that value-added product in rural America, we can solve all of these nation's problems.

Senator **Andrews.** Those are fantastic figures, Clayton; and Senator Leahy and I were just visiting for just a second here.

Our appropriations committee has been asked to supply $23 million this year for wrath of deployment force, military force to project our military might into the Middle East to keep our hands on somebody else's fuel. Far better, I guess, that we invest in our own.

We'll look at those figures. They're most compelling and we'll see what we come up with. Thanks for your contribution.

Mr. **Litchfield.** I appreciate it.

Mr. **Christenson.** Let's go to the next line.

Would you state your name and address for the record, please? You're on the air.

STATEMENT OF CLIFFORD SOLSETH, HETTINGER, N. DAK.

Mr. **Solseth.** I'm Clifford Solseth from the Hettinger, N. Dak., area and an Adams County farmer. I act as secretary of a local group known as the Food and Fiber Producers, a cooperative marketing plan.

Our goal is to motivate farmers and ranchers into organizing a producer owned and controlled supply management system through which we can price our production at parity and maintain that price by coordinating a flow of production to coincide with actual demand. Essentially, we are proposing a producer controlled brokerage service. This agency would make the contractual arrangement of sales with buyers before any production was released just as a labor union negotiates wages before a new contract is made or an industry broker negotiates sales of industrial goods. The idea is not new, and we think agriculture can benefit by adopting this idea.

This would be accomplished through a network of county offices similar to the ASCS offices which administer our Government programs. The producer could consign his production through a county office under an agreement that the sale of that production would be made at no less than parity, FOB the source. Freight costs would become an expense incurred by the purchaser as it should be. As brokers seldom actually handle the products in which they deal, this would not conflict with those who are already engaged in handling our agricultural products.

In October 1981, we presented this plan at the Governor's economic development conference where it was given the No. 2 priority by the agriculture people of that group. We think the idea needs the support of our agriculture commissioner, the extension service, as well as the various farm organizations, and we are asking for their help.

A South Dakota farmer who heard the plan explained, commented, "This plan sounds so good. Farmers should be anxious to get into it without being asked." We want to thank the news media and you folks who helped us in the past; and thank you for letting us submit the idea to your group.

Senator **ANDREWS**. Thank you so much. It's a big help, and we'll study it very closely.

I understand that, Boyd, that the time is up. I want to thank, again, on behalf of the committee and Senator Leahy and myself, the courtesies of Public Prairie Television to enable us to go across North Dakota with your video signal at the same time we're taking in this testimony for our record. Our apologies to those who would have liked to have testified, but we simply ran out of time; and our thanks again to Prairie Public for letting us extend our time a little bit into your programing. I hope we haven't made too many people unhappy in that they'll see their programing in its entirety.

Mr. **CHRISTENSON**. We're happy to be a part of this historic telecast, it's only the second time a committee of this kind has met live on television; and I would also like to have a final word from our visitor from Vermont, Senator Leahy.

Senator **LEAHY**. I just want to also thank you, and I want to thank my very good friend, Mark Andrews, in helping to make this possible. I really feel that this will be the way hearings will be conducted more and more. I don't think anybody gets a chance to concentrate this much on a hearing when you're in Washington. The fact that we've gone overtime is only an indication of how much more we really wanted to ask and could have asked because there is so much here. This is so much better than most of the hearings that we have in Washington.

I want to thank you. You've really made it possible.

Mr. **CHRISTENSON**. Thank you so much. I would like to thank all of the other testimony we heard today also, and would like to remind you if you're watching us today and would like to send in written testimony, you can send that to Hearing Testimony, Senator Mark Andrews; Washington, D.C., and the ZIP is 20510.

That's our program. Good afternoon everybody.

[Whereupon, at 3:15 p.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

STATEMENT OF ROBERT SHEPARD, EXECUTIVE VICE PRESIDENT, NORTH DAKOTA FARM BUREAU, FARGO, N. DAK.

Mr. Chairman, Members of the Panel: Certainly agriculture and all of rural North Dakota is facing turbulent times and many serious problems. But as spring brings new life to our fields and rangelands, there is new hope for an economic recovery.

I have entered into the written record the National Farm Policy as adopted by the American Farm Bureau Federation at its last annual meeting held in January. This policy was developed through the input of thousands of farmers and ranchers, meeting in over 2,500 counties in forty-eight states. This policy calls for a market oriented agriculture with help from the federal government to provide information research, and commodity grading standards.

When we talk about rural development we must not forget that we are part of the total economy and the total world community. Most of the problems that beleaguer our agricultural economy are part of a much larger problem. A world-wide oil shortage led to high energy and fertilizer costs. A world-wide inflationary binge led to skyrocketing interest rates. Successive grain embargoes led to a loss of our export markets.

Robert B. Delano, President of the American Farm Bureau, recently stated the following three priorities—Improved Net Income, In Sound Dollars, In a World at Peace:

"Improved Net Income: Surely this must have our highest priority. Considering current conditions, it appears this can best be accomplished through a comprehensive rewrite of current farm programs—based on 1983 Farm Bureau policies. These call for improving net farm income through new market opportunities for profit, based on reduced incentives for overproduction at home and increased incentives for foreign buyers.

In Sound Dollars: Stopping erosion of the dollar's value calls for continued "freeze and fix" efforts to control federal spending and reduce federal deficits. Included must be Social Security reform; opposition to any tax increases; full support for tax indexing and the July 1 tax cut; and support for tax deductions on health insurance premiums for self-employed.

In a World at Peace: Farmers and ranchers must continue to lead international trade expansion and opposition to unwise protectionist proposals in the knowledge that goodwill rides along when goods and ideas move freely across international boundaries."

I would like to add that in North Dakota net farm income could best be improved by (1) providing credit at reasonable interest rates; (2) lower cost transportation of our commodities; and (3) the sale of the commodities we produce. Each of these "opportunities" are part of a problem affecting our world-wide community.

Real interest rates are at record high levels. Nations throughout the world are heavily in debt. Our own nation is projecting a record busting deficit. We and all nations must scrutinize our expenditures and the return to quality of life for humans that those expenditures provide.

Transportation is a vital key to this region of the United States. Virtually everything we buy and everything we sell must be transported. Water transportation is not readily accessible. Increased fuel taxes and highway-use taxes will be a heavy burden to this state. Extended shipping seasons on the Great Lakes and improved locks and dams on the Mississippi would benefit this area.

We must be able to sell the commodities we produce. Embargoes and implied embargoes have driven our markets away. Hungry people in foreign nations must be able to buy the food we produce. Their economies need to be developed to the point that they can create wealth to pay for food. And we must not price our commodities above market-clearing prices. We must be ready to meet and beat the subsidies of other exporting nations. The Agricultural Export Equity Act of 1983—S. 822—is a measure which will help us do that very thing, providing we are not saddled with a cargo preference measure. Funding for a revolving export credit fund would be of great benefit.

Rural development depends on agriculture, but agriculture is part of the total economy. Actions to improve net farm income, with sound dollars, in a world at peace are needed now.

NATIONAL FARM POLICY

We favor a market-oriented agriculture. The primary objectives of a market-oriented farm policy should be to allow farmers to take maximum advantage of market opportunities at home and abroad without government interference; encourage needed adjustments in resource use; and reduce the need for future government intervention. Market oriented farm policies should:

(1) Maximize long-term opportunities for profit in agriculture;

(2) Reduce existing incentives for over-production at home and abroad;

(3) Insure price competitiveness for U.S. farm products in world markets;

(4) Provide opportunities to reduce stocks through production adjustments and/or expanded demand; and

(5) Assure consumers of adequate supplies of efficiently produced products they wish to consume.

Our long-term goal is the establishment of all commodity price support loan programs at market-clearing levels (75 percent of the previous five-year average price received by farmers excluding the high and low years) to function as an orderly marketing tool for farmers.

Our government should insist on strict implementation of international trading rules to prevent unfair practices by competing nations, and to assure unrestricted access to domestic and world markets.

Government programs should be restricted to:

(1) Programs to help farmers obtain needed crop and market information, research, educational assistance and credit;

(2) Programs to provide workable grades and standards and to safeguard product quality through inspection services;

(3) Programs to help farmers eradicate or control plant and animal pests and diseases;

(4) Programs to encourage conservation of land and water resources;

(5) Programs to prevent the exercise of monopoly power;

(6) Assurance of reliable, unfettered transportation for agricultural commodities; and

(7) Programs to strengthen farmers' power to bargain for a price.

We support the implementation of a "crop swap" program in conjunction with an effective voluntary acreage reduction program for the 1983 and 1984 crops of wheat, feed grains, cotton and rice to alleviate the problem of our present burdensome, price depressing surpluses. A "crop swap" program should be:

(1) Viewed as short-term solution;

(2) Implemented in conjunction with an acreage reduction program which will provide adequate incentive to encourage product participation so that supplies can be brought into line with demand;

(3) Implemented so that all payments will go only to bonafide producers;

(4) Structured in a manner that will enhance orderly marketing;

(5) Coupled with an incentive program for foreign buyers; and

(6) Implemented so that acres diverted under this program will not be grazed.

We support elimination of payment limitations under the commodity price support, acreage reduction and disaster programs.

We support additional incentives to encourage producers to put diverted acres into permanent soil conserving use.

We oppose economic incentives to artificially stimulate producers to bring fragile lands under cultivation. Fragile grasslands are defined as those lands highly subject to wind and water erosion that have a projected erosion rate in excess of five tons/acre/year in the absence of soil conservation practices.

STATEMENT OF STANLEY M. MOORE, PRESIDENT, NORTH DAKOTA FARMERS UNION

Mr. Chairman, I am Stanley M. Moore, President of the North Dakota Farmers Union. Farmers Union is a general farm organization representing over 35,000 farm families in our state.

While it is terribly obvious, we must start with the premise that the best rural development is a healthy agricultural economy. North Dakota is often considered to be one of the most rural states in our nation. Traditionally, over two-thirds of the new wealth in our state's economy comes from agriculture. Thus, any rural development strategy that ignores farm income is doomed to failure.

The key to rural development is the purchasing power of agriculture. Net farm income has declined for the past three years. In constant dollars, using 1967 as the base year, the net agricultural income per farm has declined from $6,189 in 1979 to $2,958 in 1982. This past year net farm income was less than the interest which farmers paid on their debts. Today's purchasing power in agriculture is at about the same level as the purchasing power of farmers in the worst years of the Great Depression.

The lack of agricultural purchasing power in agriculture is not only taking its toll in farm foreclosures, liquidations, and bankruptcies, but also can readily be seen in any business community in North Dakota. We have witnessed implement dealers, auto dealers, farm supply outlets and other businesses close their doors as a result of the lack of purchasing power in agriculture.

This not only impacts our own state, but eventually reaches into the industrial centers of our nation. We are all familiar with the difficulties facing the International Harvester Company. But, we need to take it one step further. Since agriculture is the major single purchaser of domestically produced steel, is it any wonder that with agriculture in its present economic distress that the nation's steel industry is experiencing unemployment rates of twenty percent and higher.

Agriculture still remains the single largest industry in the nation. It is the nation's largest employer. One out of every five jobs in this nation are related to agriculture. Whenever agriculture has prospered, this nation has experienced full employment. Historically, we know that national economic recovery will not be successful unless the agricultural economy is healthy. In fact, we are absolutely convinced that national economic recovery must begin in rural America.

Because of this belief, early last spring we documented the relationship between the lack of agricultural purchasing power and the difficulties facing the business community and the farm credit industry. Our survey of rural and economic conditions revealed that the future of the rural economy was hanging by a fine thread. I am attaching a copy of that survey for the committee's records.

Every piece of economic evidence that we have seen since taking our survey last spring demonstrates that the situation has become even more precarious.

Therefore, rural development must be based on a permanent national farm policy. We can no longer afford a farm policy that simply reacts to one crisis after another crisis. No business can exist unless it has a stable framework for its decision-making process. Individual farmers need longer-term national farm policies to make plans for their own individual farm units.

We can no longer have the luxury of drastically changing farm programs from one year to the next. Even a four-year farm bill cannot provide the stability that agriculture and rural communities need. We need a permanent farm law. Such a permanent farm law must be targeted for family-sized farm units. It must include a stable supply-management system that is capable of adjusting to world markets on a continuing basis, rather than attempting to make abrupt adjustment in one or two crop seasons.

A permanent farm law also must contain price support levels that reflect the producer's costs of production. With such a permanent farm law, we will not only stabilize farm income and the agricultural economy, but we can also minimize the costs to the federal government. This is especially important at this time, when many are questioning the Department of Agriculture's budget. The simple fact is that because the current farm law has had inadequate price support levels and has not provided for a consistent and stable system of supply-management, the inherent risks of such short-term policies has increased the exposure to the federal budget and inevitably results in higher federal outlays for price support programs.

The role of government in rural development must be to assist individuals, cooperatives, businesses, industries, communities, states, and regions to do those things which they cannot achieve by themselves. Rural development must be based on the concept of a partnership between citizens and their government.

For many years, the federal farm program was a prime example of such a partnership. Farmers had a voice in the decision-making process in a joint management approach with their government. I believe the time has once again arrived when farmers and Congress must consider a permanent national farm policy which provides for mandatory farm commodity programs to be accepted or rejected through producer referendums.

If producers approve the referendum they will all be responsible for accepting their fair share of supply-management in return for price support protection at the costs of production. If they reject the referendum, any producer would be able to produce as much of the given commodity that the producer feels he can risk in a totally open and free marketing situation.

Under a system of mandatory commodity programs, producers would have the opportunity to determine whether or not they felt that they could achieve supply-management by themselves or if they needed a partnership with government to accomplish what they could not achieve through their own individual and collective actions. I am convinced that given such a choice, the decision of producers would be to recognize and accept that such a partnership with government was necessary for stabilized production and pricing.

We are currently in the midst of the most critical economic crisis in modern agricultural history. The distressing figures on net farm income, equity, and debt conditions have all been well documented.

These conditions are simply beyond the control of those who live and work in rural America. We do not have the capacity to solve these problems without meaningful partnerships between citizens and their government.

Just this past week, we had another example of the serious nature of the depression conditions facing agriculture. Despite the fact that North Dakota's farmers lead the nation in the sign up for the 1983 wheat program and its payment-in-kind features, we are facing a very serious shortfall in operating credit availability.

North Dakota is among seventeen states that have used all of the available Farmers Home Administration operating loan funds for the third quarter of the federal fiscal year. Our state's FmHA Director Ralph Leet estimates that between 500 and 700 farmers in North Dakota will be affected by this shortfall. He reports that he has been notified that FmHA cannot process any more operating loans at the present time in North Dakota. Mr. Leet correctly points out that there may still be many farmers who haven't yet applied or who were about to apply.

The vast majority of farm credit sources are doing everything possible to meet the needs of their borrowers. But these farm credit sources cannot risk their own institutions by assuming the risks that many farmers are facing in their individual operations. Since FmHA is the lender of last resort, many farmers have had to turn to FmHA for their operating loans.

This shortage of FmHA operating funds should not be interpreted as a failure or an unwillingness on the part of the farm credit industry. Instead, it is another indication that the farm credit crisis is much more serious than any governmental agency has acknowledged or anticipated. It is concrete evidence that the serious nature of the agricultural economy is beyond the capacity of our existing system.

The most revealing part of this operating loan fund shortage is that it is occurring at the very same time that North Dakota farmers are leading the nation in reducing their production, both in terms of the percentage of participation and in the total number of wheat acres being taken out of production.

Our state's farmers have enrolled more than 12.4 million acres in the 1983 acreage reduction and payment-in-kind (PIK) programs. That is an enrollment of 98.2 percent of the state's base wheat acreage. Our wheat producers will be taking out slightly more than 5.38 million acres, 43 percent of the state's wheat base. In addition, North Dakota producers have enrolled 95 percent of their corn base acreage, also leading the nation in the percentage of sign up.

We had six counties in our state in which participation in the 20 percent regular reduction program and the 10 to 30 percent PIK program was so great that the county ASCS committees did not accept any whole base bids.

I emphasize these acreage reductions because under any normal situation we would assume that this would have a dramatic impact in reducing the need for operating credit. But, as demonstrated through the FmHA operating loan fund shortage, these are not normal times and operating credit demand is higher than anyone anticipated, especially for those who need it the most and therefore have to turn to FmHA.

This shortage of operating loan funds is a symptom of much deeper agricultural economic problems. These problems include the debt, equity, and income conditions in agriculture. They require dramatic new approaches in our nation's rural development strategies.

Most of today's rural development programs were initiated during a similar economic crisis in the depths of the Great Depression. The Rural Electrification Administration, the Commodity Credit Corporation, Farmers Home Administration, our system of federal farm programs, and similar programs all evolved from the crisis in the 1930's. All of them were established as avenues by which citizens and their government could form partnerships to seek solutions to those terribly difficult times.

The success of these various programs are a hallmark of the innovation of those times. Rural America is electrified. We have an improved rural telephone and communications system. Our standard of living has improved to the point that it is nearly impossible to distinguish a farm family from city families on the main streets of our rural communities.

We cannot, however, assume that the solutions of the 1930's and the government structures that have developed since that time are appropriate for the problems of the 1980's. Agricultural history clearly shows that in every major crisis, it has become necessary for the government to restructure, reorganize and redirect its rural development programs. I believe that the critical condition in agriculture today demand a similar strategy.

According to the U.S. Census Bureau, the nation's farm population has dropped by one-third during the 1970's. In 1970 we had 8.3 million people living on our nation's farms. Today, we have only 5.6 million. Compared to our present agricultural crisis, the 1970's were relatively stable years in rural America.

The question we must face is how many more people are going to be forced off the nation's farms and our rural communities? How many more schools, churches, businesses and other community institutions will be closed during this decade of the 1980's?

As farm people have a tremendous stake in the future of our rural communities, we need the services these communities and their businesses offer. We have made tremendous investments in cooperative marketing and supply businesses in these communities. Whenever we lose a business, a school, or a rural community, our quality of life is reduced and our costs of business are increased.

We are not simply facing a farm crisis. It is a crisis for our rural cooperatives, rural businesses, our educational, religious and cultural institutions, and our entire rural community structure. This crisis cannot be solved with any single program. Yet, the only hope that farmers, rural businesses, and others in the rural community have is that somehow the payment-in-kind program will work miracles.

The hopes and dreams of rural America have been focused on PIK because it is the only available alternative that has been set into motion. But, PIK is not designed to carry such a burden. We need a much broader set of rural development strategies.

We need to stabilize farm income and farm production on a long-term basis, we need to virtually recapitalize family farm agriculture, we need to totally revitalize our rural communities. In short, we must begin rebuilding rural America.

Because of the immediacy of the farm credit crisis, the first step in this process must be the reorganization of the Farmers Home Administration.

There is great temptation today in the midst of the economic depression in agriculture to return to the days of the Farm Holiday Association through penny auctions and the stopping of farm foreclosures.

In the 1930's, mortgages were primarily held by bankers and insurance companies. Today, a substantial portion of agricultural debt is held by the cooperative farm credit system and the Farmers Home Administration. Our Federal Land Banks, owned and operated by farmers, provide 42 percent of the long-term credit for agriculture.

Our Production Credit Associations, owned and operated by farmers, provide 25 percent of all the non-real estate farm credit to agriculture.

The Bank of Cooperatives, owned and operated by farmers through their coops, provides 65 percent of all the credit to farmer cooperatives.

In the past six months, there has been considerable attention given to individual cases of farm foreclosures in various parts of this country. Yet, for every farm foreclosure that we read about or see on television, there are a multitude of others which go unnoticed.

Too frequently, the real story of family farmers being forced off the land is in the untold stories of those who did not make the front pages or the 6 o'clock news.

Unfortunately, there are always those who use the farm credit crisis and the news media to their own personal advantage. Several of the farm foreclosures that have been reported in the news media are farmers who are not typical family farmers. They have been high flyers, who have leveraged every possible asset and now want to be bailed out. They include right wing demagogues who are seeking a platform for their warped sense of constitutional rights. They include persons whose integrity and honesty are questionable. They do not have the respect or the sympathy of their own community.

To dramatize and publicize these cases simply discredits the very legitimate concerns and needs of the bona fide family farmers who have been caught in this cash-flow crisis. It makes it even harder for us to show the real struggles of our younger and beginning farmers who are trying to stay afloat.

Every farm foreclosure, every liquidation, every time a family farmer has to leave the land is a warning of the impending danger to all of us in agriculture.

We are at a time in our nation's history when we should be counting family farmers just as closely as we counted the whooping crane. We must have the same sense of national urgency to protect family farmers as we did in protecting the whooping crane, the American bald eagle, and other endangered species.

That is the story that the news media should be telling.

If we are going to learn from history, we must begin the process by realistically evaluating what tools are available to us today to provide security for farm families, to provide an adequacy of food and fiber to consumers throughout the world, and to achieve full employment.

As we assess our current situation, the history of the Farmers Home Administration provides us an important lesson for that next step. FmHA began with the creation of the Resettlement Administration in 1935 through an executive order of President Franklin Roosevelt. From this beginning, Congress passed the Bankhead-Jones Farm Tenant Act in September of 1937, creating the Farm Security Administration. Under Title 1 of that program, FSA was authorized to make farm ownership loans to farmers to establish economically viable farm units. These loans were to be repaid within 40 years and carried a 3 percent interest rate.

The one feature of the Bankhead-Jones Act that has been virtually forgotten is that it provided a system of flexible payments so that borrowers could repay these loans on the basis of their variable farm income.

In years of good production and good prices, it required that the borrower repay a greater portion of the loan, so that these surplus payments would be used to reduce payments in periods of low production and prices. In effect, the Farm Security Administration utilized a crop/share concept for repayment of debt.

This idea of flexibility of loan repayment was carried into the Farmers Home Administration's authority when the Farmers Home Administration replaced the Farm Security Administration in 1946.

In retrospect, the Resettlement Administration was the experimental phase in which innovative approaches were tested for their effectiveness in assisting farm families to become owner-operators.

The Farmers Security Administration formalized the successful programs. When changes in agriculture created new farm credit needs, the Farmers Home Administration was established in 1946 to meet those changing conditions.

The very success and effectiveness of FmHA in providing supervised farm ownership and operating loans has created part of today's problem. Because of that success it was given more and more responsibilities in administering credit programs for rural areas. By 1960, FmHA was administering eight programs. At that time, farm operating loans accounted for 64 percent and farm ownership loans accounted for 14 percent of its total funds. By 1979, it was responsible for administering at least 23 separate programs. Farm operating loans amounted to only 6 percent and farm ownership loans came to only 5 percent of FmHA's total funds.

While the actual dollar amounts of farm operating and ownership loans increased over those years, the primary focus of FmHA shifted from being the creditor of last resort for family farmers to being a rural development agency. Today FmHA has greater flexibility in making home loans than it has in making farm loans. Home loans are more in line with the ability of the borrower to repay.

A few years ago an effort was made to refocus FmHA's responsibility to serve those family farmers in the greatest need. In amendments to the FmHA law, the limited resource program was created. This is the very heart and soul of FmHA's original purpose and its mandate. Yet, this past year, the Farmers Home Administration utilized only 54 percent of the minimum amount required by law for allocation for the limited resource operating loan program. The record in North Dakota was even worse, with only about 20 percent of the required amount being used for limited resource operating loans.

Over the years, the key to Farmers Home's success was its responsibility of providing supervised loans. Yet, the General Accounting Office has charged that FmHA has been grossly negligent in its loan supervision. At the same time, Congressional hearings have demonstrated that USDA has been unable to bring its rural development responsibilities into a central focus and operation.

Too often, Farmers Home has been used by the banking and farm credit industry to bail them out of their questionable loans. Larger than family-sized farmers have been allowed to use Farmers Home for their own selfish interests. Everybody has wanted a piece of the action, and too often they have gotten it. The FmHA pendulum has been allowed to swing too far in both directions. FmHA has been too liberal and too frugal.

Currently Congress is struggling with FmHA, trying to mandate that FmHA use the authorities Congress has given it to meet this farm credit crisis. In reality, the Emergency Agricultural Credit Act of 1983, which was recently heard in Congressional Committees, is simply a bill that would require the Administration to carry out previous Congressional intent and authority.

This bill would require FmHA to give deferrals to producers who have become delinquent because of conditions beyond their control. It would require the use of the Economic Emergency Loan Program. We are hopeful that this legislation would move swiftly through Congress and be signed into law by the President.

If the family farm is to be preserved, there must be meaningful avenues for existing family farmers to stay on the land and to create opportunities for new farmers. To provide such opportunities and to allow FmHA to give full priority to family farmers, its farm loan programs must be brought together into a separate agency and reorganized into a Family Farm Recapitalization Administration.

The present responsibilities of FmHA directly related to family-farm agriculture, including its Limited Resource Program, should become the central focus of this new agency. This new agency should have one goal, to provide supervised loans as a lender of last resort to family-sized farmers so that family farmers can recapitalize. It should have the primary responsibility for creating new opportunities for a new generation of capable family farm managers.

It should be given the immediate goal of assisting those farmers whose equity position has been so badly eroded through low farm income and the cost-price squeeze, that normal farm credit sources are no longer able to finance them.

It should have the same flexibility that FmHA has today in its home loan programs, in which interest rates are adjusted according to the income level and capability of the producer. It should have the authority to accept variable payments based on the annual net income of producers. This could well be designed on the concept of a landowners' share of risk in a crop/share arrangement.

Then, whenever a farmer obtains a sufficient level of equity and security that he could be served by the cooperative farm credit system or other private lenders, he should be graduated out of the program.

The family farm recapitalization program should be given sufficient authority to develop innovative approaches to assist under-capitalized farmers and to create opportunities for a new generation of farmers.

If the farm credit crisis continues because of the low income and cost-price squeeze of agriculture, the equity position of every farmer would be endangered as land prices fall. In such a case, the family farm recapitalization program should have sufficient authority so that it might implement a Saskatchewan Land

Bank-type program which could both stabilize land values at reasonable levels based on agricultural productivity and create opportunities for new farmers.

It should have the necessary authority to work with state governmental programs. Most of these state programs have been established because of the inability of Farmers Home Administration to meet the needs of beginning farmers.

Finally, the family farm recapitalization program should become the lead agency for researching, developing, and testing programs that would insure the viability and security of family-farm agriculture. The Structure of Agriculture study, which unfortunately has been largely ignored and shelved by the Administration, would be an excellent beginning for this responsibility.

We need a similar approach in reorganizing FmHA's other responsibilities. FmHA's programs in housing, community facilities, business and industry, energy impact, and area rural development should be consolidated with similar agencies into a separate Rural Development Administration.

This new Rural Development Administration's loan and grant programs should be based on the same criteria that have been outlined for the Family Farm Recapitalization Administration. It should be the lender of last resort, capable of dovetailing and supplementing state sponsored programs, and have flexible repayment schedules and interest rates based on the needs and the capacity of those being served.

I want to emphasize that in calling for a total reorganization of the Farmers Home Administration I am not condemning either the existing farm loan programs or the various rural development programs of FmHA. These programs are needed in rural America. They have been beneficial to rural America. They need to be expanded.

Our call for a reorganization of FmHA should also not be interpreted as an indictment of individual FmHA officials or its employees. Instead, it is an indictment of a system of bureaucracy that has grown beyond its manageable level. It is the inevitable result of too many responsibilities, mixed and sometimes conflicting priorities and insufficient personnel for the job load.

Even the best rural development program cannot be implemented if those who are entrusted with that responsibility do not have adequate time to devote to the program, or to work with individuals and communities that want to use such a program. No program can be effective if the options are limited either by inadequate funding or restrictive administrative guidelines.

We can point to numerous studies and investigations, including the latest audits by the USDA Inspector General's office which accuses the Farmers Home Administration of what one farm newsletter termed "loose management." Whether we agree or disagree with the conclusions of these studies and investigations, the fact that such studies exist, that there are various court challenges questioning the legality of FmHA's regulations and administrative practices, and that FmHA has been under serious criticism, are all indications that the FmHA has been understaffed for its numerous responsibilities.

We do not want to "throw the baby out with the bath water." The real key to both rural development and farm credit is that these policies need to be redirected through reorganization and improved staffing. Congress also needs to give these new agencies definite goals, and appropriate budgets.

Too often, USDA's rural development and farm credit programs have been the victims of the continuing penny-wise, pound-foolish approach to our current federal budget system. The result is that needed public investments are not being made at a time when such investment is necessary and would be more cost-effective in the long term.

For example, while the importance of the availability of water becomes an even more critical issue for farm families, not a single rural water system has been funded in North Dakota since the FmHA interest rate was increased from 5 percent interest rate to the cost-of-money-to-the-government basis. The rural water systems that were easy to build have already been built. The ones remaining to be built are in the more sparsely populated areas of the state.

Even the 5 percent interest rate was not economically feasible for most of the remaining systems. There has been a system of grants that could be used for lowering the costs to the users. However, instead of such grants it would be much more sensible to provide interest rates at levels which give such projects economic feasibility, even if they have to go as low as 1 or 2 percent.

North Dakota recognizes this situation through our state-owned bank. The Bank of North Dakota set up a revolving fund of $10 million for rural water and community water facilities loans beginning with a 2 percent interest rate. The state's bank is setting up a similar system for a new program of loans to beginning farmers. Obviously, with the tight budget squeezes facing state government, it is not something that can be done by the states alone. The states, at best can only serve as a supplement for federal efforts.

The point is that public investment needs to be made on a timely basis according to the particular needs of an area and not simply on the basis of the availability of funds through an outdated federal budget system.

To postpone the systematic development of needed public investments in facilities and projects will only result in higher future economic and social costs, and the loss of opportunities and services for rural America.

While USDA continues to have authority for 5 percent rural water loans and 2 percent rural electric loans, up to now through administrative decision these programs only exist on paper. In this regard, we are closely watching the response of the Rural Electrification Administration to the rural electric cooperatives which have been devastated by the recent ice storms in the north central part of the state.

An interest rate for rural development activities which are adjusted to meet the economic feasibility of rural electric cooperatives, rural water systems, and others to repay are just as important as basing housing loan interest rates on the ability of the homeowner to repay.

At the same time, such reduced interest rates are much more acceptable to the recipients and to the general public than federal grantsmanship. While we may still need a system of available federal grants for the most serious of the rural development situations, certainly the primary route of rural development should be based on federal loans at affordable interest rates.

Unfortunately, instead of such practical and acceptable approaches, these programs are being squeezed by further budget cuts, administrative benign neglect, and proposals to shed the responsibilities entirely by shifting rural development responsibilities to the states.

I believe that I am paraphrasing Senator Andrews in saying that rural development strategies have in reality too often been figments of somebody's imagination put on paper through a shuffling of studies and budgets to justify the actions and inactions of a particular administration, rather than being concrete programs with some meaning to the people who live in rural America.

Rural development has been postponed for too long by being studied to death. We need to begin a systematic redirection of every USDA agency and policy, starting with the reorganization of the Farmers Home Administration and the establishment of a permanent farm program. Obviously this must be followed by similar redirection of every federal agency and policy affecting rural America to insure that our national public goals of a stable rural society and a family farm system of agriculture are not just rhetoric, but the realistic working objectives of national investments.

This kind of public planning requires a totally new approach to our federal budget process. We desperately need a capital budget system that separates federal investments and loans from federal expenditures. We need a federal budget system that recognizes the amortization and depreciation schedules of our public investments and facilities, so that we have a planning tool for the maintenance and future replacement timetables.

Under our present budget system, rural America is constantly battling against one budget cut after another, despite the fact that a high percentage of these so-called expenditures are in reality repayable loans and investments that can be amortized.

No business or farm operation could survive if they used our present federal bookkeeping system. Our federal budget isn't even an accurate cash-flow measure for our federal government. It has become a hodge-podge that few, if any, really understand, and it has become almost useless as a planning tool for the future.

I believe a capital budget system for our federal government would give rural America a much better opportunity to gain support for our programs from our city cousins, because it makes some sense to them. In our present budgeting system, rural America is shortchanged because the budget does not recognize the integral relationship between rural America and the national economy.

In order to pursue an effective national rural development strategy we need to recapture some of the innovation that was the hallmark of the original rural development programs such as the Rural Electrification Administration and the Farmers Security Administration. Through such innovation we will be able to develop new strategies of rural development to meet the challenges of today's rural economic crisis. And, in the process I believe we can rebuild the trust and participation of citizens in their governmental and economic system through a meaningful partnership of citizens with their government.

Thank you.

STATEMENT OF MELVIN SCHRAMM, PRESIDENT, NORTH DAKOTA NATIONAL FARMERS ORGANIZATION, CATHAY, N. DAK.

The problems that are facing North Dakota farmers today are few: Prices, weather, and government programs.

The effects of these problems are many and far-reaching.

We hear constantly of farmers going broke because of low commodity prices, interest, etc.

There are a number of conflicting ideas we must analyze.

The lending institutions say that the farm foreclosure rate is very small, in spite of the publicity about farmers trying to stop a foreclosure sale of one of their neighbors.

I believe that the foreclosure rate is low but we know there are very many farm auctions being held because the farmer has been issued an ultimatum—either sell out or we'll foreclose. So in reality farmers are being forced to sell out.

In recent months four large farmers in central North Dakota have filed for bankruptcy. Their debts range from 4 million dollars to 16 million dollars. These are now being followed by numerous medium-sized farmers.

The past six months have seen farm implement dealers all across North Dakota file for re-organization under bankruptcy laws.

As a result of these farms and businesses filing for bankruptcy, a great strain has been put on their suppliers as well as the lending institutions servicing them.

I feel this is one reason the lending people, banks, PCA, and FHA say they don't have any customers in trouble, because if the true story was known they fear the public would panic.

At this time FHA officials in North Dakota say they are out of funds and it will affect from 500 to 700 farmers. Where can these farmers go since FHA has already been their last chance?

I know at times, we, as farmers, tend to be too negative. However, we must be objective to completely analyze the total picture.

Are farmers really in trouble? Some surveys show half this nation's farmers are debt-free. Statistics don't show how many of these are older farmers that have farmed for years acquiring land at lower prices, raising their families before inflation took its toll, or how many of these farmers have off the farm jobs to supplement the farming operation.

One thing we do know is that in 1975 the total farm debt was $75 billion. In 1981, the last year figures are available, the farm debt rose to 212 billion dollars! Even more staggering is if this is owed by just half of this nation's farmers, especially since they are the younger farms who really are the future of agriculture.

Today's farm debt figure has to be even higher because in 1981 the net farm income and the amount of interest the farmers paid was about equal at about 19 billion dollars according to USDA reports.

1982 found most grain producers operating at a loss causing more debt—thus bankruptcies and farm failures.

Farmers are crying for loan moratoriums and that more funds be made available to borrow. This only prolongs the problem. We don't need more loans, we need a price for our products!

We must also look at government programs good or bad, embargos and foreign markets as well as domestic markets.

The three year reserve program that started with good intentions, a strategic reserve for emergencies and to insulate it from the market to raise prices, has turned into a yoke on the farmers neck.

The reserve grew far beyond anyone's expectation because of government embargoes, the farmers ability to produce and low commodity prices.

Because the reserve price was the best game in town, farmers built bins to store the grain and placed it in the reserve stocks.

This has caused the grain pipeline to virtually dry up, cutting back on the amount available for export and as in the case of corn, to affect the domestic supply. This has also caused a strain on the local elevators, transportation system and others in the grain trade.

These reserve stocks are costing USDA a huge amount of taxpayers money.

Because of these conditions the grain trade and USDA hatched (perhaps the most complex farm program ever) the Payment-in-Kind program.

The Reagan administration reacted to the strain on the federal budget caused by the huge stocks in the reserve by attempting to dump this grain back in the farmer's lap. USDA, surprised by the number of farmers that jumped at the chance to cut production costs and still receive some bushels to market, has once again over-reacted by trying to buy more grain from the farmers to cover its commitment in the PIK program. That isn't necessary because the rules say that if CCC doesn't have sufficient stocks a farmer can be required to place his 1983 crop under loan and then these bushels can be used as his PIK bushels.

At this time it is debatable whether the PIK program will be advantageous or not.

One thing it will do is lower reserve stocks and force more grain into the market. This was the goal of both the grain trade and USDA.

Now what will it do for the farmers—the ones really in trouble?

First, it will give us some bushels to sell without the huge production costs. The wheat market, which is the most important to North Dakota, has risen about 40¢ a bushel since the PIK figures have been announced. This is encouraging but what's the big deal if the price of wheat goes from $3.25 a bushel to $3.65 when the average cost to produce a bushel of wheat is $4.25. (This is the estimate by a PCA official in central North Dakota.)

Now the psychological effect of the PIK participation is over and time for a look at reality.

1982–83 wheat stocks will have increased 35 percent (or 418 million bushels) over a year earlier stocks. Thus available supply will dampen any price movement because of PIK reductions. According to USDA predictions farmers will produce 2.265 billion bushels of wheat this year plus 720 million bushels of PIK bushels available. This totals 2.985 billion bushels compared to 2.808 billion bushels produced last year. So there really isn't any reduction in the available supply for this marketing year.

With or without a PIK program next year we know that most if not all of the wheat acres seeded in North Dakota next year will be on summerfallowed acres. Given average conditions we can expect an increase in the average yield of 5 to 10 bushels per acre which will not reduce production and raise prices as some predict.

Since half of our wheat acres will be seeded this year and unless something unforeseen happens, we can expect the market prices in North Dakota to be at the loan level of $3.65 a bushel. If it costs $4.25 to produce a bushel of wheat in 1982 we can expect 1983 costs to be at least as high or higher. The fixed costs, taxes, rent, depreciation will more than off-set lower interest rates and fuel prices. Therefore, we will have to take many of our PIK bushels to subsidize the bushels we raise just to break even. What does that leave us to retire debt or live on?

What about 1984? Will there be another PIK program? If so, what kind? When will it be announced?

My, how much better off the farmers would be if there was less government intervention and farm products were priced at cost-of-production plus a reasonable profit level!

Even the most dull-minded economist knows that the value of the nation's new wealth determines the effect of the nation's economy. New wealth comes only from the soil, from agricultural crops, livestock, and minerals.

By raising the price of agricultural products this country's new wealth would increase and the economy would improve, especially in the more agricultural states.

Chase Econometrics has stated that the economy of the United States can not completely turn around until farm prices improve.

They have told the North Dakota State legislature that North Dakota won't see a recovery for a while as a recession reaches the agriculture segment later but also leaves at a later date.

All this shows that the number one problem for farmers is the low price of their commodity.

Why are commodity prices so low? Domestically, the per cent of the American consumer's salary that is spent on food is the lowest in the world.

The embargoes that our government has put on grain have all come at a time when grain prices were at much higher prices than now and yet we needed embargoes to keep an adequate supply here in our country. This should dispell the myth that other countries can't afford to buy our products.

We hear a lot of advice on marketing. Where is the advice coming from? In North Dakota, Extension Marketing Specialists conduct marketing meetings throughout the winter. Most of the accent is on the futures market, hedging and etc. We are told not to be greedy and lock in a profit whenever we can.

This is fine when prices are high enough to return a profit, but as in the past several years grain prices are below cost of production, this marketing strategy is worthless.

In order to price agricultural commodities at levels that will insure a healthy agriculture it must be done by the farmers themselves. There is no other business in this country that operates under the conditions of someone else setting their prices without any regard to the cost of the product or service.

A good example is in 1981 our grain exports were at record levels but the price at the farm got dropped considerably. The demand was there but the farmer never set the price.

The National Farmers Organization is a collective bargaining organization with the goal of cost of production plus a reasonable profit for the farmers. When this goal is reached, then and only then, can this country's economy remain strong.

We have marketing programs for all the major crops grown in the United States plus almost all the minor crops as well as all types of livestock and dairy products.

In North Dakota the NFO is the single largest supply of oil sunflowers available anywhere, we also market substantial amounts of wheat, durum, barley, and corn.

Yet, whenever any marketing seminars are held by the extension service, chemical companies, or commodity markets they never mention the NFO marketing programs. All the information given to them is from sources that have designed a marketing system to insure a supply on their terms.

Lower prices require more production by the farmers to return the amount of income to stay in business. Three dollar wheat makes me sell twice as many bushels as $6 wheat. Thus, the grain trade gets an adequate supply at lower prices.

I could go on and on stating examples of the problems caused by low farm prices.

As I said, the number one problem is the price. We wouldn't need all the loans, plagued with high interest rates. we could buy the cars, farm implements, and other supplies needed if we had a fair price.

Now is the time to be optimistic. There is a light at the end of the tunnel if we are willing to go after it.

As I said before the National Farmers Organization has a marketing program for all commodities that would return cost of production plus a profit.

We have a program for the grain in the 3-year reserve. By blocking (blocking means grouping together products from a number of farms) together a large enough amount of this reserve grain and then pre-negotiating contracts with the grain trade to be activated when the Secretary of Agriculture announces the release price has been attained. The grain would then be fed into the market over a twelve month period to ensure an orderly flow into the market.

This would be advantageous to both the grain trade and the farmers because the grain trade would be insured of an adequate supply at a fixed price and the farmers would be insured of a stable price and the ability to deliver when he chooses.

With the PIK program we have also adapted a marketing program designed to market these PIK bushels without causing a glut on the market and also to attempt to bargain for a higher price.

Space or time doesn't allow me to go into detail on each of our marketing programs for each type of grain or livestock. However, it is important that you know these market opportunities are available for the farmers to use.

It makes me very sad to know that there are marketing specialists advising farmers that are ignorant as far as how NFO markets farm products. They are a prime example of the blind leading the blind!

As a Senate Ag committee anything you can do as far as export subsidies, finding new markets, helping foreign countries obtain our products without the threat of embargoes will help the farmers.

The complex requirements of the PIK program point to the fact farmers don't want or need more government intervention. Don't let anyone ever tell you the high participation in the PIK indicates farmers like government programs. They are desperate and embraced PIK to survive!

We know that government programs can't all be eliminated but should be used only to prevent disaster or to help people in dire need.

It is very important for all of us to know if there will be another PIK next year, and if so, we must be told the mechanics of it as soon as possible.

In conclusion, the solution to the problem is in the farmers hands. If they are willing to work together to set the price, they can stabilize a healthy agriculture and a strong economy. Until then, and only then, we will have all kinds of economics problems.

STATEMENT OF KENT JONES, NORTH DAKOTA COMMISSIONER OF AGRICULTURE

Senator Andrews and Senator Leahy: I appreciate the opportunity to present comments on a topic dear to my heart—agriculture. For the record, I am Kent Jones, North Dakota Commissioner of Agriculture. Farming has been my main occupation for most of my adult life, and the experience gained on my farm has helped me to serve all of the farmers in the state, through the North Dakota Department of Agriculture.

In reflecting on what has happened to North Dakota agriculture for the better as well as the worse in the past five years, one point is brought home—whatever you gentlemen and the government in Washington determine as our global policy, we in North Dakota agriculture will be directly affected. Let's take a quick inventory of the last five years of events that sealed the fate of Farmer Jones in Webster, North Dakota—

1. 1979 was the time of the hostages in Iran. Two months after the taking of the hostages, Russian troops invaved Afghanistan. On January 4, 1980, the Carter Administration declared an embargo on grain shipments to Russia.

2. Coincidental with the Russian grain embargo, interest rates began to rise as a result of a shift in monetary policy of the Federal Reserve. Our dollar strengthened in relation to other currencies, and American farm commodities were more expensive for our overseas customers.

3. Favorable weather throughout much of the grain-producing regions of the world produced record worldwide production of the basic agricultural commodity. The American farmer suddenly found himself in a situation that most experts had predicted would not again happen—a time of agricultural surplus. And, the price paid to the farmer dropped. As prices dropped, so did farmers. Here in North Dakota during the 1970's, on the average, we had about 500 fewer farmers every year. Now, during the past two years, according to our surveys and the Crop and Livestock Reporting Service, that reduction has doubled—we are losing 1,000 farms each year, and there is nothing to suggest that this trend will have slowed in 1983.

In North Dakota, what is good for the farmer is also usually good for the rest of our state and its economy. Unfortunately, the reverse of that holds true as well, and our farmers' present difficulties are rippling through Main Street, North Dakota. All North Dakotans have a stake in a healthy farm economy. More importantly, our entire country has much to gain from a diverse, thriving agricultural sector.

Americans in recent times have become accustomed to taking the farmer for granted. Food has been plentiful as well as inexpensive. Even during the highly inflationary years of the 1970's, the farmer's prices trailed far behind other price increases. Figures recently released by USDA show that in 1982 the farmer's share of the American "food dollar" was the lowest since records were begun in 1947—down to 28.1 percent, from a high of 51 percent. What this means is, for every dollar you and I spend on food, only 28 cents of that ends up in the hands of the farmer. The rest goes for transportation, packaging, processing, etc. Underpricing basic commodities such as raw food products, in relationship to other goods and services, is a symptom of an economic system with problems that need to be worked out.

Farmers in North Dakota have felt the impact of the grain embargo, worldwide recession, the strong dollar, and other factors that have combined to give us our present "farm problem". Unique complications such as the recent years of drought and other weather problems and the Duluth grain handlers strike have compounded the difficulties in our area. Farmers have been saying that something is wrong down on the farm, for some time now.

The speed with which USDA and the Federal Government developed the PIK program demonstrates that Washington has come to recognize that the farm sector of our economy is not indestructible. Farmers across the county, and especially here in North Dakota, have signed up for this year's version of the farm program in record numbers. Idling millions of acres of cropland in return for grain from the Government storehouses is a drastic approach. Farmers, I think, responded so enthusiastically because the alternative's didn't "pencil out". Moreover, such a dramatic change in philosophy by a market-oriented administration in Washington says to farmers, Washington recognizes that farmers are in trouble.

The PIK program seems to be an idea that will be around for at least two years, and, as such, presents opportunities for improving our country's natural resource base. During the 1970's, vast acreages of grassland were converted to marginal cropland and put into production. These lands are especially prone to the ravages of the elements and erosion. In times of surpluses such as these, we need to make every effort to encourage farmers to apply long-term soil conservation practices to these fragile farmlands. The Federal Government and USDA need to move from lip service on soil conservation to action in dealing with this problem. Our country's soil and water are too vital to all Americans to allow such an opportunity to slip by.

The present PIK program, I fear, is being perceived by people across the country, and especially by policy-makers in Washington, as an end-all solution to problems in the rural community. Unfortunately, that is not the case. The PIK program is a stop-gap reaction to farm conditions that had begun to uncomfortably resemble a time half a century ago—the Great Depression of the 1930's. As I mentioned earlier in my comments, Main Street businesses here in North Dakota feel the crunch of low farm prices just as much as the farmers. The farm income net benefits of PIK to the farmers are derived mainly from a reduction in production expenses, not through an increase in cash receipts by farmers. This means a continuation of reduced levels of farm dollars recirculating through rural communities and states such as ours. For the next year or so, farm-based economies will continue to sputter and stall. Congress needs to be cognizant of these facts, and to realize that the problem has not been solved—what has been done is that a mechanism for recovery sometime in the future has been put in place. When PIK has done the job of removing the burdensome stocks of commodities which are depressing the markets, farmers will again be able to receive a profit. In the meantime, you and I must do all we can to ensure that as many farmers as possible survive these times. Some are of the opinion that the present economic conditions are weeding out the marginal farmers, the poor managers, and those who got themselves into financial difficulties through their own doing. We have gone beyond that point. As one of our farmer members in the North Dakota Legislature so aptly put it, "We have gone beyond cutting the fat; we are cutting into the muscle".

State department actions, monetary policy, weather, and international economics have come together in a deadly mix that is undermining sound, solid farm operations. Here in North Dakota, we have decided that agriculture and its future is a priority commitment. The State has developed a program to assist beginning farmers through a mix of tax incentives and loan programs through the Bank of North Dakota. Yet, this crop of new farmers that we are attempting to get started in farming is in danger of failure. Many of these young farmers are dependent upon the Farmers Home Administration for their credit needs. This federal lender of last resort must be absolutely sure that these new farmers are given every reasonable opportunity to survive, and that they receive the special attention and assistance so necessary to ride out the storm. The Farmers Home Administration needs adequate funding and personnel to carry out its charge-getting farmers started in business, keeping them in business, and graduating them to other sources of credit.

Reducing the grain stocks through PIK and keeping farmers in business until the agricultural economy improves are necessary steps, but we must do more.

A major concern of mine is that, as we bring down our surpluses of wheat, our "allies" are planting fencepost-to-fencepost to get our markets. We can take advantage of PIK by becoming ever more aggressive in marketing efforts. We need all the assistance in financing and building markets that we can from the Federal Government. We need to sell our products to foreign customers and use our food as a tool for peace. The PL-480 program, first instituted in the 1950's, served a double purpose—providing reasonable terms on food purchases by underdeveloped and developing nations, and cultivating future markets for American farm products. What the world needs today is more such sales of food to developing nations, not more sales of guns and weapons of war.

The grain embargo casts serious doubts upon the reliability of the American farmer as a food supplier, and the damage has yet to be repaired. Aggressively developing credit programs to sell our farm products is needed if we are serious about remaining competitive in export markets. Blended credits, an export bonus PIK, direct export subsidies, "credit buy-downs," and other methods of financing for foreign purchasers must be utilized if we hope to regain our share of the world export market.

Past crises in agriculture have resulted in a re-evaluation and re-direction of existing agricultural policies and programs. I think we have reached that point in time again.

The basis for federal farm programs in the United States is legislation developed 50 years ago. The PIK program first appeared on the scene in the cotton section of the Agricultural Adjustment Act of 1933. Federal policy-makers, armed with word-processors, computerized printouts and all the latest technology, are coming up with answers five decades old.

The time is right for farmers and policy-makers to use some good old Yankee ingenuity and come up with some new answers. Agriculture is too vital a segment of this country's foundation to be left to flutter in reactionary, short-sighted winds. When we in agriculture can, in 10 short years' time, make the trip from planting fencerow to fencerow to today's situation of taking over one-third of the U.S. cropland out of production, I begin to wonder if there is any direction to our country's food and agriculture policy. In less than twenty years' time, we have come from "food for peace" to "food as a weapon".

American agriculture, despite economic uncertainty, is a model of efficiency admired by other nations. It will survive these times, and will continue to make a major contribution to this country's greatness in the future. The challenge that you and I face as agricultural leaders, is to inject an element of long-range planning and consistency into food policy in our country. The family farm and the preservation of such a form of agriculture in the U.S. have provided the basic philosophy and direction for agricultural legislation in the past. We needed to take this guiding principle and apply it in innovative ways to agriculture for the future.

Thank you for the opportunity to be a participant in this unique format for a public Congressional hearing. I think this is a vivid demonstration that there are innovative, future-oriented individuals in Congress.

STATEMENT OF FRANCIS SEARS, MEMBER, FAMILY FARM COMMITTEE, NORTH DAKOTA DEPARTMENT OF AGRICULTURE, PETERSBURG, N. DAK.

As a ctizen of North Dakota and as a small farmer—retired now—I am painfully aware of the process of erosion taking place in rural communities with the disappearance of family farmers on the land.

Although the rate of decline in numbers has slowed in the last few years, compared to the 70's, it still represents an unacceptable decline, in my estimation. Much of the problem, it seems to me, is due in large part to the fact that young, aspiring would-be-farmers are denied opportunity to enter the occupation. Land is simply not available at a price that is affordable and the larger operator can either bid more, in terms of a purchase price, or offer a more favorable rental fee, whether in share or in cash, to the landowner.

My hope and my appeal to the governmental planners is the granting of assistance, so that that beginning farmer is afforded a halfway decent chance to get a foothold in the occupation of farming.

North Dakota through the establishment of a Family Farm Committee as an advisory committee to the state Department of Agriculture, has sought and achieved some legislation which has been helpful. There is now by statute a tax incentive granted to land owners in ND who sell their land to beginning farmers. This concept is highly desirable, but since ND income taxes are not high in the first place, the inducement to take advantage of this tax reduction is minimal. It is my hope that a similar tax incentive in federal taxes would be mandated by the Congress.

Over the years when farm programs were written, I am sure the lawmakers were attempting to provide balance and stability—yes, and fairness to farmers in general. But too often programs aided the larger operator to become progressively larger and the smaller operators were left with small benefits.

In modern-day societies we find there is a necessity of providing employment for the unemployed by means of legislation and monetary appropriation. That is a fact. We seem, however, not to want to provide unemployment benefits to farmers. We wait until they go broke and find their way to the city where they compete for the limited number of jobs or else go on the dole. Wouldn't it be more logical to assist the farmer to remain on the farm?

It is regrettable that we needlessly accept the processes that would tend to depopulate our state. Let us dare to renounce the defeats of the past and begin anew to establish more viable priorities for the future.

STATEMENT OF TIMOTHY J. DODD, PLANT SUPERINTENDENT, NOODLES BY LEONARDO, INC., CANDO, N. DAK.

North Dakota is a state that ranks among the top in agriculture production and close to the bottom in manufactured products. It is a state that is standing by and watching its largest industry, agriculture, flow from the hands of many to the grasp of few, causing the small rural communities to decline in population, which distresses their businesses, schools and governments. Being a leader in agriculture production is no excuse to let other states reap the profits from manufacturing North Dakota's raw products into "high valued" finished products. Rural North Dakota can reverse these trends and develop a sound, flourishing economy by erecting processing plants in areas where raw materials are produced. Some processing plants have been built in North Dakota in recent years, but most of them have been built either close to or in urban areas, thus not directly benefiting small rural communities.

The Federal Government recognizes the migration of people from rural areas to urban areas by offering the "Urban Development Action Grant (UDAG) program to cities with a population of 50,000 or less. The UDAG program is designed to assist small cities with economic growth by funding approved projects at a determined ratio of private money to UDAG allocated funds. Since 1978, the Federal Government has appropriated 100 million dollars each year to UDAG. In five years, North Dakota has only had five projects approved for UDAG funding. These projects received 2.2 million dollars from the UDAG program, which is only .4 percent of the total funds allocated to UDAG by the Federal Government. A study by the General Accounting Office indicated that very few cities with a population of 50,000 or less, have the technical know-how to do the leg work necessary to put together an approved UDAG project.

I'd like to give an example of one small city that does have the technical know how to do the necessary leg work to get UDAG funding for its projects. The city is Cando, North Dakota. It has a population of 1500, and to this date, has completed two projects involving UDAG funding. These projects are the Noodles by Leonardo pasta plant and Cando Egg. The city put the projects together by first creating the Durum Triangle Industrial Park, Corp. (D.T.I.P.C), which consists of members from local businesses. The D.T.I.P.C. acquired the assistance of the North Central Planning Organization to help them with the technicalities of applying for UDAG funds. The two projects have created over 125 jobs for the community and spurred the construction of new homes and apartment buildings. The city utilized the UDAG funds by acquiring land for an industrial park, constructing utilities and streets within the park, and increasing capacity of their water treatment plant. The rest of the funds were loaned to the builders of the projects at interest rates below prime. The interest and principal, now being paid back to the city from the projects, are being used as an interest subsidy to help start new noncompetitive businesses, which, in turn, repay the subsidies back to the city on a revolving basis.

Since both of the UDAG funded projects in Cando process locally grown raw materials, they, in turn, can benefit from federal farm subsidy programs. One program that would benefit the Noodles by Leonardo pasta plant, which processes locally grown durum wheat into finished pasta, was suggested to the Federal Government by the North Dakota Wheat Commission and the United States Durum Grower's Association. It is called the "Export Payment-in-Kind for Durum Pasta" program and would subsidize durum wheat that would only be processed into export pasta, enabling U.S. pasta manufacturers to compete in the world pasta market. This idea would parallel the payment-in-kind program for hard wheat products that the Federal Government already implemented by selling over 277,000 tons of hard wheat flour, using over 12 million bushels of payment-in-kind wheat, to Egypt.

Lately, the public has been hearing about Italians stealing U.S. pasta sales with cut-rate imported pasta, which, in turn, reduces the amount of U.S. durum processed into domestic pasta. The Italians are supposedly subsidizing the durum wheat in the pasta, which amounts to as much as 12 cents per pound of pasta, and underselling all the eastern pasta manufacturers by 10 cents to 15 cents per package. The National Pasta Association, the trade group representing most U.S. pasta makers, has filed a complaint with the U.S. Trade Representative's Office, claiming that the subsidies violate international trade agreements between the United States and European Economic Community (EEC). The EEC claims it is subsidizing the wheat in the pasta, not the pasta itself, and that the subsidies aren't in conflict with trade agreements. If this is true, why not fight fire with fire, and implement the P.I.K. for durum pasta program, thus letting U.S. pasta manufacturers compete with the Italians, who are the largest exporters of pasta, in a world market. There are many foreign countries that are interested in importing U.S. pasta. For example, Japan, with a population of 110 million people, have increased their pasta imports by an average of 98 percent per year for the last five years, 5.3 million pounds in 1977 to over 31 million pounds in 1982. Due to wheat subsidies, the Italians import 99.1 percent of all the pasta imported to Japan. The United States only makes up .7 percent of the Japanese imports. From this example, one can see that an export P.I.K. for durum pasta program, if implemented, could lend itself to the concept of increasing U.S. exports of "value added" products.

Another program suggested to the Federal Government by the North Dakota State Wheat Commission and the U.S. Durum Grower's Association is the "Durum Export Entitlement Certificate" program. This program would allow firms active in the durum export market to bid Commodity Credit Corporation (CCC) for "Durum Export Entitlement Certificates." In theory, the bid would be the per bushel amount necessary to sell durum at competitive prices in the world market place. The value of the certificate should be approximately equal to the difference in the United States durum price and the lower price of durum available from other origins in the export market.

If CCC accepts the bid and the exporter has proven that a quantity of durum has been exported, CCC would issue to the exporter a divisible/transferable certificate equal in amount to the per bushel bid times the quantity exported.

These certificates would be redeemable from CCC only by durum producers. The exporter could sell the certificate to anyone, but eventually someone would have to use them to buy durum directly from producers. Upon receipt, the durum producer would have the option of redeeming them in cash at face value or in exchange for durum stocks in the three year reserve program.

The "Durum Export Entitlement Certificates" should have a value in excess of face value to producers since producers would be exempt from conditions of the three year reserve loan agreement. CCC could encourage or discourage such redemption by altering the certificated rights and conditions from time to time. On June 30, 1983, U.S. durum stocks will be approximately 151 million bushels, roughly equal to one and one-half times the usual export and domestic consumption. Exports of U.S. durum have fallen 33 percent this year due primarily to the damage done by Greek and Canadian competition in world markets. No short term relief is in sight. Quite the contrary, Spain, which may enter the common market, is also a large potential durum producer and could cause long term damage to U.S. durum exports similar to Greece's entry to the EEC in 1981.

The United States can discourage further expansion of foreign durum production by demonstrating to the world that it has an export policy which is both flexible and aggressive. The "Durum Export'" Entitlement Certificate" program is flexible in that the U.S. would be able to alter its export price structure from day to day to meet competition. This is an aggressive step which, with a minimal outlay of dollars, could increase foreign exchange earnings. Such a program would imply to our competitors that similar programs could be undertaken for other classes of U.S. wheat and feed grains. Thereby providing an overall benefit for all U.S. commodities in world markets. U.S. taxpayers would benefit by increased foreign exchange earnings, savings in producer storage payments, and a more positive trade posture in world markets.

Both programs suggested by the North Dakota State Wheat Commission and the U.S. Durum Grower's Association can directly enhance the economic development of rural North Dakota by satisfying the goals of North Dakota durum growers, millers and pasta manufacturers.

STATEMENT OF JOHN M. MCGINLEY, PRESIDENT, NORTH DAKOTA BANKERS ASSOCIATION

Resiliency. If there is just one word to describe the current status of and outlook for North Dakota banking, it would be that word—resiliency. This is especially important to our state's largest and most significant business, agriculture.

It is fortunate that North Dakota banking has proven to be as resilient as it has when one takes a few moments to look back. Banking in North Dakota and across the country has experienced many trying times, most of which could not have been anticipated. We have seen our costs increase dramatically due to rapidly escalating interest rates. Competition has demanded that we pay market rates just to retain existing deposits, let alone attract new ones. This has caused a severe squeeze and has in most cases brought about significantly reduced earnings.

In addition to paying more for traditional time deposits, we are now having to pay those market rates on most all deposits as well. This is due to the many new deposit instruments that have been created by the Depository Institutions Deregulation Committee at the request of Congress. The days of having a large pool of free money, also known as plain checking accounts, are gone and are gone forever. About the only non-interest bearing checking accounts left in our banks are business deposits and it is anticipated that we will soon be required to pay market rates of interest on them as well.

The situation has, to a degree, been made more difficult by the recent drop in interest rates which is as welcomed by the banks as it is by consumers. We must remember, however, that less than two years ago, many banks were having to pay upwards of 16 percent in order to attract 30-month certificates of deposit. Those rates are now locked in for that long and many banks are still obligated to pay those amounts until the certificates mature.

This is quite a change from not too many years ago when most banks had maybe 80 percent of their deposits in checking accounts with the remaining 20 percent in five-percent passbook accounts and a few six-percent CDs. The proportions have now turned around completely. Checking accounts will probably soon represent less than 10 percent of most banks' deposits.

In recent years, we have also been plagued by the problem of not having adequate funds to be loaned out. This situation was aggravated, at least until recently, by having many individuals sending their dollars out of state to money market mutual funds to receive higher rates of interest but still wanting to do their borrowing from us. We could not loan out dollars that we didn't have. This created a need to carefully ration the loan dollars that we had. Today, the situation has improved somewhat and most North Dakota banks do have adequate funds for loans and at a somewhat lesser rate than had been the case.

Banking's costs have been negatively impacted as well by over zealous regulation on the part of the federal government. Laws such as Truth-in-Lending, Equal Credit Opportunity, Fair Credit Reporting and many others are entirely well-intentioned, but I seriously question how much actual benefit that the consumer has received from the vast investments that banks have been forced to make in paper work and personnel to be in compliance with these far-reaching regulations. They appear to be technical paper work exercises as much as anything. It would be extremely beneficial if many of these laws could be made more realistic rather than becoming more complicated with additional layers of self-perpetuation.

We are about to see what could be the worst example of such over regulation. I am referring to the law that is presently scheduled to go into effect on July 1 to require financial institutions to withhold 10 percent of income on all interest and dividends. I will be brief on this subject because I know that you gentlemen have already heard more about this than you care to. However, I honestly believe that the thousands and thousands of letters that have poured into the Congress would not have been forthcoming unless individuals really had serious thoughts about this. Many organizations attempt to build a groundswell of support to "get their way" in Congress and most of those efforts fail because people do not believe the issue affects them. This issue does affect most people individually and it is another example of the government getting far more involved in an individual's affairs than they need to be.

Let me close on this subject by stating that the real public outcry on this matter will probably start coming about the end of 1983 if actual withholding begins. That will be an outcry that the banking industry will not have to spark, because then the public will have learned first-hand about the negative effects of withholding and it will be too late then to do anything about it. The withholding requirements of the 1982 tax law must be repealed and consideration should be given to enacting legislation to exempt interest and dividend income from taxation in the first place. That will obviously be a long time in coming, but the longest journey must start with one step. I believe this would truly be a step toward genuine economic stimulation.

I must also touch upon the fears that are too often expressed in the media about the number of failing banks. There were 42 failures of FDIC-insured banks in 1982 and it is likely, according to FDIC Chairman William Isaac, that the number could be higher in 1983. We must keep in mind that the effect on banks of an economic recession is delayed, and that as we see problems in this area, it will not signal more economic difficulties, but only be the last negative results of the most recent recession. Mr. Isaac has also stated that not one of the failed banks from last year or the banks that are currently in jeopardy could be called well-run. These banks got into the trouble they did because they were run by poor operators and in the words of Mr. Isaac, they cannot blame the economy for their difficulties. They can thank an earlier better economy for having kept them afloat as long as it did.

Another change coming up which I would like to mention concerns the planned public disclosure of past-due loans. Like others, these are well-intentioned regulations, but I fear that an uninformed "cub" reporter could do irreparable harm to an institution in misinterpreting these figures or using them out of context. Let us be realistic, financial institutions do not go through periods of recession such as we just have without having some effect on the quality of its loans. Banks in North Dakota, like banks in many states throughout the U.S., will show more than the usual amount of past-due loans. This is not to mean that these loans are uncollectible or that they will necessarily affect the safety of the bank, but it does mean that more than the ordinary care will have to be taken to bring them current and bankable. Indeed, the banks of North Dakota feel that if they did not have some loans in this category that they would not be doing their job in serving the state's agriculture and business customers. We also feel that the press has a moral obligation both to the banks and the customers to view these in their proper perspective.

In closing, let me remind you that as the decade of the 1980's began, we heard that vast numbers of banks would be falling by the wayside and that by 1990, the 15,000 banks existing in 1980 would perhaps be down to 5,000. The decade of the 1980's is now nearly 35 percent complete, and there are still approximately 15,000 banks nationally. As I stated at the outset, banking is, fortunately, very resilient.

I thank you for this opportunity to present these concerns and I would be pleased to answer any questions.

STATEMENT OF NORMAN WECKERLY, OWNER AND PRESIDENT, HURDSFIELD GRAIN CO.

Mr. Chairman and Members of the Subcommittee: My name is Norman Weckerly. I am an owner and president of Hurdsfield Grain Company and a small grain farmer from Wells County in North Dakota. I am former president of the U.S. Durum Growers Association; former chairman of the North Dakota

State Wheat Commission; and former chairman of the Agricultural Council of the Greater North Dakota Association.

I would like to congratulate you, Senator Andrews, and members of this subcommittee for holding these hearings. They are a further indication that Congress fully understands the importance of agriculture to the economy of the United States and the important role that North Dakota plays in the total picture.

THE IMPORTANCE OF AGRICULTURE

The contribution of a strong agriculture to our country and consumers of the world is obvious. It is important to the nation, not only as a source of our food and fiber, but also as a major export commodity to achieve a favorable balance of payments. I believe that agriculture will become even more important in the future as a supplier of food and fiber to an ever increasing world population.

North Dakota is predominantly a rural state. It is a state whose 650,000 people depend upon agriculture, energy production, manufacturing, and tourism as the major sources of new wealth to generate economic activity. In 1981, the state's new wealth was nearly $6 billion, with about 53 percent generated from agriculture. This is down from 58 percent of new wealth being generated from agriculture in 1980, and 66 percent in 1979. Prior to that point, agriculture historically generated more than 70 percent of the state's new wealth.

During the decade of the 70's, manufacturing expanded rapidly in North Dakota. In 1970, new wealth from manufacturing was $148 million, or 11 percent of the total. By 1980, this increased to $562 million or 14 percent of the total. Manufacturing was tied mainly to agriculture, such as farm tractors and implements, as well as processing agricultural products.

Another measure of the importance of agriculture to the economy of North Dakota is its gross state product. In 1981, the gross state product was $8.5 billion. Agriculture generated $1.3 billion, or about 15 percent of the total. The next largest was mining with $1.1 billion, or 13 percent of the total. Thus, the health and prosperity of agriculture is extremely important to the condition of all sectors of North Dakota's economy.

North Dakota is an extremely important supplier of food and feed grains. In 1981, North Dakota ranked No. 1 in the nation in the output of durum wheat with 70 percent of the total; other spring wheat with 39 percent of the total; all wheat with 12 percent of the total; barley with 22 percent of the total; flax seed with 55 percent of the total; sunflowers with more than 70 percent of the total; and pinto beans with 27 percent of the total. It also ranked second in dry edible beans with 14 percent of the total. North Dakota is also an important state in the production of beef and beef products, sugar beets, and potatoes.

TRANSPORTATION SYSTEM—AN IMPORTANT FACTOR

North Dakota is situated in a rather unique location, from a geographic point of view. First of all, it is land locked. Second, it is located approximately equidistant from the Atlantic and Pacific Oceans and the Gulf Ports. Third, nearly all of the agricultural and other products must be shipped out for processing, exporting, and domestic consumption. Fourth, nearly all inputs used in agricultural production and consumer goods must be shipped in from locations outside of North Dakota. Therefore, all North Dakotans are affected by transportation service, reliability, and cost.

Few deny the importance of transportation to the economic, social and political well-being of a nation. A U.S. Senate Committee on Interstate and Foreign Commerce was conducting a review of National transportation policy. The group concluded that: "Transportation is one of the tools required by civilized man to bring order out of chaos. It reaches every phase of our existence. Viewed from every standpoint, it is unquestionably the most important industry in the world." If transportation is the most important industry in the world, it is certainly a vital component in any program designed to enhance the level of economic activity and social well-being in rural America—North Dakota. In fact, transportation is relatively more important to North Dakota than other areas of rural America since transportation expense accounts for a larger proportion of the total value of the product at major markets. For example, during the past five years, from 20–30 percent of the value of grain from North Dakota points at terminal markets was transportation expense. The transportation system also has a significant impact on our ability to expand the processing of agricultural products produced in North Dakota—thereby providing job opportunities for the young men and women born, raised, and educated in North Dakota to remain and contribute to, and benefit from, our high quality living. Therefore, transportation systems and policy can be a very effective mechanism to stimulate economic development in North Dakota and throughout rural America. Such transportation system must be timely, responsive, and reliable.

Therefore, it is obvious that agriculture is extremely important to the health and prosperity of North Dakota. We must create a profitable climate for agriculture to operate. A profitable agriculture created by expanding markets is the major solution to the problems in rural America. This can come about through the expanded exports of our agricultural products.

EXPORTS

A strong export demand for agricultural products is extremely important to North Dakota as much of the grain produced in our state is exported. Three very important crops in world trade are produced in North Dakota—hard red spring and durum wheat and sunflowers. For example, in 1980, wheat exports from North Dakota were 13.2 percent of the total U.S. wheat and flour exports. During the same year, North Dakota exported 62.5 percent of all sunflower seeds and oil. In order to maintain our creditability with foreign countries as a reliable supplier of our high quality durum and hard red spring wheats as well as sunflowers, it is essential that every effort be made to develop a foreign trade policy that aggressively promotes and markets our agricultural products.

EXPORT POLICY

It is important to spur growth in the world trade or in the U.S. share of export trade. However, we must first examine factors causing problems of this growth.

The first and foremost problem is the financial and economic pressure that the world-wide recession has exerted on all nations and all industries. Credit has become more costly to everyone and less available to many of those nations who need it most. At the same time, the strength of the U.S. dollar has made U.S. commodities relatively more expensive.

We also know that the U.S. suffered substantial losses in Soviet grain trade over the past three years. In fact, if we now enjoyed the same share of the Soviet market as we had before the 1980 grain embargo, the U.S. would be selling the Soviet Union some 25 million tons of grain annually. Instead, this country appears likely to sell the U.S.S.R. only a minimum six million tons called for by the long-term agreement. The U.S. losses in the Soviet's market encouraged several foreign competitors to increase their own production and to sign bilateral agreements to preserve their newly acquired shares of U.S.S.R. trade.

Domestic farm policy has also aggravated our trade problems. As market prices have plummeted, which should have signaled growers to reduce levels of production, our loan rate target prices and reserve entry loan rates were increased. Our support levels provide an umbrella for a price protection for the world contributing to higher production in many foreign countries. As U.S. loan rates have dominated our markets, U.S. grain has been stored rather than marketed.

Reductions in Public Law 480 funding have also contributed to the decline of our export volume.

And finally, in a world where economic recession has generally stagnated demands for all goods and services, competition among sellers has become much more intense. This situation has highlighted the practices employed by all nations to both capture existing demand and to protect or stimulate domestic producers and manufacturers from foreign competition.

EXPORT SUBSIDIES

There have been trade problems between the U.S. and the European Economic Community festering for years. Both the U.S. and the E.E.C. offer their producers price and income supports. When these support prices are in excess of market clearing levels, surpluses accumulate. While the U.S. uses acreage diversions and set-aside to control production, the E.E.C. has continued to increase its price supports but made no attempt to control production. This has led them to aggressively seek export markets with the use of subsidies in order to dispose of these surplus stocks.

Many argue that the U.S. should implement an export subsidy of our own to recapture or expand markets. While I recognize that there are many problems with export subsidies, I believe that we should use export subsidies to the extent necessary to keep us competitive in the world market.

CONCLUSION

I have attempted to establish the importance of agriculture to the health and prosperity of the entire economy of North Dakota.

During periods when North Dakota farmers and ranchers are prospering, the wholesale and retail trade, financial institutions, construction, manufacturing, and service sectors of our economy are prospering. Even though energy production has grown and is a stabilizing force, agriculture has been and will continue to be the major source of new wealth in our state.

We must develop from profits—not loans. Thus, any programs to strengthen agriculture must focus on increasing demand. Thus, more aggressive marketing must take place in both domestic and foreign markets.

I believe we have a right to expect government to lead—not follow or react. I am concerned about the involvement of the State Department and others in trade policy decisions. It seems to me that such involvement is detrimental to agriculture. The development of an aggressive foreign trade policy is essential.

STATEMENT OF GARY KRAMLICH, CHAIRMAN, LEGISLATIVE COMMITTEE, NORTH DAKOTA ASSOCIATION OF BUILDERS, MINOT, N. DAK.

The conditions which in 1949 gave rise to the authorization by Congress for the Farmers Home Administration (FmHA) to make housing loans still exist today. But we believe that the commitment of this Administration to the future of these programs is in serious doubt. It will destroy the Farmers Home Delivery System which has over 2,000 offices servicing 3,000 rural counties. Over one-half of all our rural counties do not have private lenders. The FmHA provides direct lending authority and is the only source of credit in many of these communities.

OUTLOOK FOR FARMERS HOME ADMINISTRATION PROGRAMS

Before discussing the Administration's proposed rural housing block grant and the need to maintain funding at existing levels for FmHA programs, I would like to review for you the outlook for rural housing programs. If the housing industry is to continue to be the "bright" spot in the economic recovery, it is not the time to eliminate rural housing programs.

The proposed fiscal year 1984 budget for Farmers Home Housing programs including the block grant is cut by two-thirds with individual program cuts of over 98 percent in some areas and eliminated in other instances.

In fact, Senator Andrews, the Economics Division of the National Association of Home Builders (NAHB) has projected that government assisted new housing production of all types in 1983 will be due to rural housing programs (see Chart I).

In view of the fragile economic recovery we are now experiencing, it is not the time to cut back on the one good cost effective rural housing program that is in operation.

Senator Andrews, in earlier testimony this year before the Senate Banking Committee the home building industry gave economic projections and detailed the status of the housing industry and we will not take the time of the Subcommittee to review that testimony now. We would like to emphasize however, the impressive statistical record of the FmHA as it pertains to rural housing programs.

FMHA RURAL HOUSING PROGRAM VOLUME

The nationwide perspective of rural housing programs since the inception of the home loan program is a record of great accomplishment, achievement and growth. Over 1.7 million loans totalling over $30.5 billion have been made for individual housing loans since 1949. Over 15,500 loans totalling over $6 billion have been for rural rental housing. Most of the expansion in the program has been in the last five years. Between 1977 and 1982 FmHA made 50 percent of the total volume of these loans. This does not mean that a strong commitment to rural housing shouldn't still exist. While rural areas have only 30 percent of the population, they have over 50 percent of the substandard housing.

Senator Andrews, we are attaching a chart (see Chart II) which demonstrates housing loans and obligations under the FmHA. In terms of new housing loans in the United States, the Midwestern Farm Belt is the largest region for FmHA activity.

There were only 11 states with volumes of 2,000 to 2,700 subsidized FmHA units in fiscal year 1982. They can generally be characterized as states with significant farm and small town, non-SMSAs populations. While North Dakota is one of the lowest population states, there were 19 states that had smaller FmHA housing loan activity. The 49 million dollars of housing loan activity certainly evidenced the substantial need for FmHA's housing programs in our very rural state. North Dakota which has less than 1 percent of the nation's population had 12.8 percent of the housing loan volume.

RURAL HOUSING POLICY

There is no question that rural housing is not a priority of this Administration. The Administration's blueprint for rural development which includes the rural housing block grant has also come under attack. In fact, Senator Andrews, one of the most severe attacks has come from yourself as the Chairman of the Senate Agriculture Subcommittee on Rural Development, calling the policy report a "travesty". You were quoted as saying, "Given the fluffery we got in the name of a policy report, we're going to have to go out and build a record that we couldn't get from the Administration. They haven't analyzed the needs, haven't identified the payout that can be expected from investment in rural development." This policy paper entitled "Better County" will do nothing to meet the continued housing needs of rural people.

There seems to be no one either in the private sector or on Capitol Hill who is championing the rural housing block grant concept. Forty-two Senators, including yourself, from both parties chose last year to add their names to an amendment which would have deleted the rural housing block grant from the Senate Housing Authorization bill and all of them are still in office. Private groups including housing providers, housing financers and recipient groups alike have joined in opposition. Even the Governors at their recent meeting in Washington protested the severe cuts. They are state officials who generally support money given directly to them from the national government. And the reason for that, Mr. Chairman, is that very simply put the rural housing block grant is a bad idea.

In 1982, Mr. Chairman, NAHB reaffirmed our long-standing policy to meet the housing needs of rural people. This can only be done, in our opinion, by providing adequate appropriations to meet our nation's longstanding commitment to decent and affordable housing for all Americans. Let's not let the rural housing block grant be a mask for housing programs. Let's not allow this disguise to fool us.

NAHB policy also affirms that FmHA has been a viable vehicle for housing rural people and that the rural county offices of FmHA have been more responsive to the housing needs of rural America than any other government agency. In fact, Mr. Chairman, to my knowledge, the FmHA is the only government agency whose sole purpose is to service rural Americans.

FmHA housing program operated by county supervisors throughout the geographical spectrum has proven to be North Dakota's most efficient delivery system of available rural housing mortgage credit. For many years North Dakota has been an advocate of the Farmers Home Administration and in particular, the housing programs administered by them.

OPPOSITION TO THE RURAL HOUSING BLOCK GRANT

In the following section we will document NAHB's opposition to the rural housing block grant. We will emphasize the severe budget cuts, give our recommendations, detail the economic impact from new construction, describe state loses in funds and enumerate our opposition to specific provisions of the program.

Budget Cuts

Mr. Chairman, the Administration's proposal to Congress to consolidate rural housing programs into an $850 million block grant cuts rural housing programs by two-thirds from $3.4 billion in fiscal year 1983 to $1.2 billion in fiscal year 1984. This legislation virtually zeros out existing housing programs.

The 502 single family interest credit program is cut by 88 percent from $2.3 billion in fiscal year 1983 to $280 million in fiscal year 1984; the 515 rural rental program by 98 percent from $940 million to $16 million and the rural rental assistance program by almost 50 percent from $123.7 million to $63 million. And if the rural rental assistance program is compared to fiscal year 1982 levels of $398 million, the cut is 84 percent. The Administration is simply budgeting for these programs to provide housing assistance if some states are not prepared to accept the block grant at the beginning of the fiscal year.

The following table emphasizes these cuts and the number of units lost by breaking the partnership between the private home builder and the federal government.

RURAL HOUSING PROGRAM CUTS

	Fiscal year 1983 estimate	Fiscal year 1984 budget	Percent change 1984 over 1983
Sec. 502	$2.3 billion	$280 million	−87.8
Single family	54,445 units	2,600 units	−95.2
Low income	33,800 new	1,000 new	−97.0
Sec. 502	$29 million	0	−100.0
Moderate	745 units	....	−100.0
	238 units	....	....
Sec. 515	$940 million	$16 million	−98.3
Rental	28,300 new	0	−100.0
Rural rental assistance	$123.7 million	$62 million	−49.9
	(11,750 units)	(6,000 units)	−48.9
	4,750 new	0	−100.0
Block grant	....	$850 million [1]	....
Total new construction	62,338 new units	1,000 new units	−98.4
Total FmHA	$3.4 billion	$1.2 billion	−64.7
	92,730 units	3,038 units [1]	−96.7

[1] Because of the varied uses of the block grant, it is not possible to accurately assess the totals.

It is also shocking that under the fiscal year 1984 budget, only 2,600 units of housing are provided for the 502 program which is less than one unit of housing per rural county in the United States.

Let me also point out, Mr. Chairman, that the Farmers Home single family program is a limited subsidy program. As the borrower's income goes up the subsidy is reduced. When the home is sold, the federal government recaptures the money.

Recommendations/Actions

Therefore, Mr. Chairman, NAHB recommends the following action:

Oppose the Administration's proposal to convert the FmHA housing programs to a block grant program (S. 761).

Support funding for these programs at fiscal year 1983 levels (502 single family and the 515 multifamily rental program).

Support a sufficient level of rental assistance funds to make the 515 program feasible.

Economic Impact of New Construction

As you are aware there is a tremendous ripple effect involved in the construction of new housing. The approximate 65,000 new FmHA units of housing will generate $370 million in just federal income taxes alone. In addition, for every 100 units of FmHA new construction an equivalent of 80 full-time jobs are created. New construction, Mr. Chairman, is more than a house on a lot. The impact of the ripple effect of housing is extensive. All the suppliers and material production industries including timber and cement making plants must be included. You have a ripple effect after the home is built from the furniture, carpet, paint and appliance manufacturers. When homebuilding is stagnant these industries are too. When homes are being built you have a vibrant economy. Homebuilding has made a tremendous contribution to our nation's productivity and essential economic recovery.

State by State Loss

The reason, Mr. Chairman, that 40 Senators opposed the block grant program last year and that the Governors of the states are not supporting the drastic cut of funding is because of the severe loss of funds to the states if the block grant is implemented. We have attached a chart compiled, by the Housing Assistance Council, which shows a comparison of allocations of money by state in fiscal year 1982 as compared to the rural housing block grant as introduced in fiscal year 1984. There is no state that gains by this proposal. Some, lose more than others. In fact, the severe losses to the states put the attack on rural housing programs in the realm of the unreal. Only Alice in Wonderland could have dreamed up this proposal for OMB.

In your own state of North Dakota, Mr. Chairman, the estimated allocation of funds goes from almost $50 million in fiscal year 1982 to a total of $7 million under the Administration's fiscal year 1984 budget proposal (see Chart III).

Provisions of the Block Grant

There are a number of problems with the block grant as envisioned by the Administration in addition to the unrealistic cuts already documented earlier in my testimony.

First, the $850 million for the block grant is appropriated at the same level for five years. No increment has been provided for the outyears for the impact of inflation or for renewing existing contracts.

Secondly the block grant is a multipurpose grant with new construction lost in the myriad of uses that are enumerated in the legislation. The grant could be used for the benefit of low income persons for the acquisition, alteration, repair, construction, improvement or conversion of structures for dwellings. It can be used to refinance indebtedness and to provide for temporary housing costs.

Third, the cost of reports necessary to receive the block grant and the financial and compliance audits needed to justify the funds are extensive.

In addition, Mr. Chairman, such a completely new housing system would take time to start up. State Housing Finance Agencies, the body suggested by the Administration to administer the program, do not have the capacity in some states to do this in such a short time. This I can attest to as an Advisory Board member of North Dakota's Housing Finance Agency.

I also don't believe, Mr. Chairman, that the states would be able to leverage the money for the block grant as asserted by the Administration to equal existing housing programs. A recent General Accounting Office study notes that only $1 of non-federal funds are generally obtained for each $9 of federal housing block grant funds. The Administrator's block grant proposal would simply be replaced by the local delivery system for rural housing services with a non-proven delivery system which may not have the necessary state funding to properly start up and administer.

The Administration has also testified that FHA insurance programs could be made more readily available in rural areas and that FmHA county offices would carry out and administer the program. The drain on the FHA insurance fund and the already existing shortage of personnel in FmHA offices would make this approach to meeting the credit needs of rural people illogical.

CHART I

FEDERALLY SUBSIDIZED HOUSING STARTS, 1982–83

	1982	1983
Program:		
FHA multifamily	21,000	26,000
Sec. 8 and public housing	95,000	5,500
Sec. 235	10,700	2,000
Farmers Home	65,000	65,000
Total	191,700	98,400

CHART II

TOTAL LOANS AND OBLIGATIONS UNDER FARMERS HOME ADMINISTRATION INSURED LOW TO MODERATE INCOME HOUSING PROGRAMS, FISCAL YEARS 1980-1982

(in thousands of dollars)

	Fiscal Year 1980				Fiscal Year 1981				Fiscal Year 1982			
	Total Subsidized		Total Nonsubsidized		Total Subsidized		Total Nonsubsidized		Total Subsidized		Total Nonsubsidized	
	Total Loans	Total Obligations	Total Loans	Total Obligations	Total Loans	Total Obligations	Total Loans	Total Obligations	Total Loans	Total Obligations	Total Loans	Total Obligations
NORTHEAST												
Connecticut	450	$ 15,566	130	$ 4,044	400	$ 19,049	58	$ 1,144	665	$ 30,227	51	$ 1,495
Maine	1,630	38,831	315	5,662	1,307	34,746	159	2,403	1,554	48,869	129	2,079
Massachusetts	923	28,583	234	6,192	812	28,804	143	3,623	866	33,024	124	3,590
New Hampshire	569	17,932	210	4,149	530	18,840	124	2,037	706	27,455	93	1,511
New Jersey	1,150	35,265	286	6,081	818	25,396	116	2,470	850	27,316	107	2,753
New York	2,006	51,407	938	16,426	1,642	41,292	439	6,653	1,257	30,821	223	2,067
Pennsylvania	2,019	66,642	1,032	25,601	1,937	66,421	424	8,421	2,194	80,088	272	4,646
Rhode Island	222	8,649	26	922	106	7,63[illegible]	8	269	221	9,753	12	483
Vermont	824	24,786	226	3,250	723	24,[illegible]37	98	853	782	28,440	133	2,180
Total	9,793	$ 287,661	3,397	$ 72,327	8,451	$ 268,415	1,569	$ 27,873	9,095	$ 315,993	1,144	$ 20,806
SOUTH												
Alabama	2,184	$ 55,610	790	$ 19,312	1,625	$ 42,944	336	$ 7,027	962	25,936	165	$ 3,336
Arkansas	2,506	66,150	733	15,025	2,071	57,738	386	6,109	1,877	50,313	387	6,186
Delaware	171	4,468	53	929	178	5,508	35	741	156	4,090	23	317
Florida	1,943	52,510	598	15,595	2,040	60,065	343	8,449	1,884	58,159	270	6,765
Georgia	2,564	69,341	1,004	24,546	2,696	78,044	417	9,178	2,739	84,521	250	5,897
Kentucky	2,761	75,449	927	20,679	2,509	79,629	306	5,726	2,378	78,368	214	3,671
Louisiana	2,588	86,629	532	15,341	2,796	102,904	290	7,868	2,222	85,186	137	3,427
Maryland	835	26,940	345	9,918	721	24,447	72	1,708	577	18,902	57	1,087
Mississippi	3,144	84,919	1,000	25,072	3,076	86,471	549	12,054	2,348	66,397	440	9,530
North Carolina	4,390	118,893	1,784	39,712	5,319	158,939	833	16,793	4,786	150,153	609	10,853
Oklahoma	2,197	57,360	823	16,847	1,992	58,156	481	9,058	1,383	47,871	605	10,886
South Carolina	1,907	55,118	565	14,462	1,973	60,154	217	4,924	1,832	58,976	180	3,644
Tennessee	2,498	62,180	1,017	23,777	2,998	81,629	617	13,534	2,620	74,220	391	7,913
Texas	2,150	63,650	1,099	28,296	2,225	70,283	531	13,090	2,256	73,772	506	13,739
Virginia	2,376	56,155	675	13,752	2,219	57,020	298	5,236	1,768	38,961	189	2,970
West Virginia	1,271	33,252	495	10,240	1,291	38,515	198	3,362	1,010	32,242	152	3,173
Total	35,483	$ 968,624	12,440	$ 293,503	35,805	$1,062,526	5,907	$ 124,857	30,792	$ 948,065	4,375	$ 93,390

TOTAL LOANS AND OBLIGATIONS UNDER FARMERS HOME ADMINISTRATION INSURED LOW TO MODERATE INCOME HOUSING PROGRAMS, FISCAL YEARS 1980-1982
(in thousands of dollars)

	Fiscal Year 1980				Fiscal Year 1981				Fiscal Year 1982			
	Total Subsidized		Total Nonsubsidized		Total Subsidized		Total Nonsubsidized		Total Subsidized		Total Nonsubsidized	
	Total Loans	Total Obligations	Total Loans	Total Obligations	Total Loans	Total Obligations	Total Loans	Total Obligations	Total Loans	Total Obligations	Total Loans	Total Obligations
NORTH CENTRAL												
Illinois	2,026	$ 58,299	774	$ 16,392	1,942	$ 60,689	390	$ 6,134	2,149	$ 68,279	289	$ 4,888
Indiana	2,309	61,625	593	12,941	1,891	52,284	380	7,157	1,826	48,458	159	2,384
Iowa	1,757	56,853	713	15,071	1,630	57,203	284	5,242	2,197	85,849	195	2,660
Kansas	826	19,960	620	11,108	832	21,456	309	4,620	709	18,231	270	4,228
Michigan	2,322	67,490	866	21,088	2,037	60,730	435	8,922	1,754	38,104	211	3,159
Minnesota	1,089	36,436	485	12,511	1,303	48,968	262	5,500	1,131	44,350	186	4,389
Missouri	2,463	65,394	895	18,767	2,784	78,670	447	8,244	2,386	71,279	333	5,593
Nebraska	864	24,993	331	7,052	735	22,435	187	3,773	647	21,648	113	2,197
North Dakota —	483	16,118	223	4,988	590	22,[illegible]52	148	3,[illegible]	919	38,026	129	3,033
Ohio	977	30,100	505	12,130	1,752	63,088	245	5,184	1,475	55,859	95	1,495
South Dakota	852	23,221	326	5,515	674	19,284	121	1,330	541	15,131	101	1,247
Wisconsin	1,429	46,503	528	13,825	1,465	49,633	231	5,398	1,581	53,524	155	3,166
Total	17,395	$ 506,992	6,859	$ 151,388	17,635	$ 556,392	3,449	$ 64,686	17,315	$ 558,738	2,236	$ 38,439
WEST												
Alaska	19[illegible]	$ 10,342	39	$ 1,726	102	$ 6,206	2	$ 63	169	$ 12,121	2	$ 147
Arizona	972	24,961	233	4,901	745	18,870	159	2,632	682	23,573	70	1,770
California	2,231	83,970	409	13,920	2,407	96,236	130	4,571	2,557	105,508	79	2,2[illegible]0
Colorado	734	23,790	257	6,519	758	25,706	136	3,173	753	25,840	146	3,081
Hawaii	206	9,708	110	4,910	175	8,837	84	2,958	268	14,385	19	712
Idaho	1,110	28,422	226	4,972	940	26,288	165	3,287	811	20,180	158	2,430
Montana	475	14,800	167	3,606	535	16,733	106	2,435	648	20,320	80	1,665
Nevada	207	8,197	53	1,748	150	5,964	19	525	202	8,874	17	590
New Mexico	626	18,038	184	4,170	558	17,902	112	2,424	618	20,928	105	2,541
Oregon	1,349	54,737	246	6,697	1,363	50,510	74	1,804	1,315	48,507	38	931
Utah	711	24,643	228	6,582	602	20,785	134	3,466	649	22,291	68	1,747
Washington	901	30,686	223	6,568	1,020	39,449	125	3,556	1,164	48,859	46	1,317
Wyoming	213	7,803	125	3,992	228	8,545	59	1,463	513	21,980	70	2,295
Total	10,129	$ 340,097	2,500	$ 70,311	9,583	$ 342,030	1,325	$ 32,357	10,349	$ 393,566	898	$ 21,426
U.S. Territories[1]	4,005	$ 116,717	722	$ 16,877	3,164	$ 98,168	353	$ 6,303	2,483	$ 83,635	195	$ 2,359
Total United States	76,805	$2,220,087	25,918	$ 604,404	74,638	$2,327,528	12,603	$ 256,077	70,034	$2,300,000	8,848	$ 176,417

1 - Includes Puerto Rico, Virgin Islands and West Pacific Territories

Source: Department of Agriculture, Farmers Home Administration. Compilation and analysis by NAHB Economics Division.

FmHA RURAL HOUSING PROGRAMS

CHART III

STATE	1982 ACTUAL	FY 1984 Budget Proposal		
		Block Grant	FmHA	Total
U.S. TOTAL	$3,884,125,974	$850,000,000	$374,500,000	$1,224,500,000
Alabama	75,861,274	26,537,299	10,622,832	37,160,131
Alaska	18,388,374	3,406,159	2,357,600	5,763,759
Arizona	37,690,368	5,501,635	2,455,355	7,956,990
Arkansas	87,017,017	17,313,970	7,519,363	24,833,333
California	196,260,269	23,090,687	10,272,977	33,363,664
Colorado	43,810,852	6,278,337	2,769,042	9,047,379
Connecticut	40,539,352	7,443,389	3,294,469	10,737,858
Delaware	5,969,560	1,990,297	877,057	2,867,354
Florida	122,596,989	17,071,250	7,533,532	24,604,782
Georgia	144,442,670	28,381,965	12,497,109	40,879,074
Hawaii	15,238,400	1,593,856	719,961	2,313,817
Idaho	26,347,873	5,501,638	2,436,635	7,938,270
Illinois	104,037,382	22,548,614	9,942,601	32,491,215
Indiana	93,777,010	24,166,742	10,585,147	34,751,889
Iowa	114,842,535	15,226,584	6,635,226	21,618,810
Kansas	40,973,200	9,765,402	4,236,536	14,001,938
Kentucky	128,386,792	35,898,170	15,610,444	51,508,614
Louisiana	139,9[illegible],068	16,877,075	7,428,797	24,305,872
Maine	79,786,550	10,898,092	4,726,041	15,624,133
Maryland	48,227,930	9,401,324	4,126,814	13,528,138
Massachusetts	45,114,898	10,978,998	4,817,110	15,796,108
Michigan	94,163,032	31,820,487	14,003,820	45,824,307
Minnesota	86,217,700	17,168,338	7,448,787	24,617,125
Mississippi	112,710,410	23,294,862	10,239,828	33,534,690
Missouri	115,602,490	20,436,957	8,863,663	29,300,620
Montana	33,170,476	5,323,641	2,316,979	7,640,620
Nebraska	30,348,434	7,095,491	3,082,729	10,178,220
Nevada	14,608,112	1,326,865	590,439	1,917,304
New Hampshire	39,328,430	6,051,799	2,639,015	8,690,814
New Jersey	44,934,736	9,555,046	4,190,244	13,745,290
New Mexico	51,349,864	5,833,351	2,585,888	8,419,239
New York	80,570,216	41,213,720	18,048,349	59,262,069
North Carolina	242,651,232	49,312,451	21,498,136	70,810,587
North Dakota	49,689,440	4,959,562	2,151,028	7,110,590
Ohio	75,027,602	35,679,722	15,634,738	51,314,460
Oklahoma	90,216,010	11,747,609	5,088,043	16,835,652
Oregon	72,417,958	10,105,209	4,475,850	14,581,059
Pennsylvania	113,588,136	47,920,861	21,005,354	68,926,215
Rhode Island	11,363,260	1,561,494	673,666	2,235,160
South Carolina	114,884,762	21,763,822	9,540,363	31,304,185
South Dakota	23,364,510	5,436,910	2,382,498	7,819,408
Tennessee	129,925,426	26,901,378	11,813,576	38,714,954
Texas	151,905,144	34,789,752	15,406,549	50,196,301
Utah	32,535,830	2,394,829	1,079,942	3,474,771
Vermont	33,853,720	5,056,650	2,233,246	7,289,896
Virginia	73,912,444	26,326,943	11,523,419	37,850,362
Washington	73,671,670	12,378,679	5,444,988	7,823,667
West Virginia	75,309,036	21,998,450	9,502,418	31,500,868
Wisconsin	73,828,554	21,763,822	9,514,058	31,277,880
Wyoming	33,010,408	2,022,660	876,552	2,899,212
Puerto Rico	76,836,090	35,589,500	16,315,718	51,905,218
Virgin Islands	3,917,500	1,275,000	716,450	1,991,450

SOURCE: Housing Assistance Council

AMERICAN ENERGY, INC.,
Forman, N. Dak., April 13, 1983.

Senator MARK ANDREWS,
Chairman, Senate Agriculture Subcommittee on Rural Development, Federal Building, Fargo, N. Dak.

DEAR CHAIRMAN ANDREWS: I am pleased to submit the following letter in testimony to the Senate Agriculture Subcommittee on Rural Development. My name is Clayton Litchfield, and I am Executive Secretary of American Energy, Inc., a 1,140 member farmer cooperative organized in the tri-state area of North Dakota, South Dakota, and Minnesota. This letter testimony is submitted on behalf of all of us as members and farmers looking for a solution to our nation's problems.

Enclosed is an article from the Washington Post. There seems to be something wrong with what is going on, and to the best of my ability I will attempt to convey it to you.

As you know, we are working deligently to obtain the financing for our 50-million gallon corn to alcohol fuel plant at Hankinson, North Dakota. We have put together good, sound, conservative studies which indicate that we will be able to compete in today's depressed fuel market and still return to the farmer an average of 3.04 per bushel for corn and 2.76 per bushel for feed barley in 1983 dollars over the 20-year life of the venture. We can even make it work with today's markets and pay for the plant in ten years.

We have used a logical approach from the start of our project. However, to date we have been unable to complete our financing. Even though we have been logical, we have not been conventional.

Conventionally, farmers are supposed to build small plants and go broke, which they have, and industry is supposed to build large plants and make lots of money, which they have. Logic tells us to build a large plant.

Conventionally, fuel alcohol projects have looked to the government for loan guarantees. Logic tells us that with a good, sound project it is not needed. In our case, logic has not seemed to prevail.

This article about the synfuels corporation makes me ill! This basic charter calls for 500,000 barrels of production by the year 1987. They are to accomplish this through four basic approaches: coal gasification, development of shale oil, tar sands, and peatmoss to methanol conversion. On a scale of one to ten, economically these processes aren't even on the scale! The worst one of all is peatmoss to methanol, and recently there was tentative approval on a loan and price support guarantee of $465 million to a firm in Creswell, North Carolina. This firm, First Colony Pete Methanol, is a 67.5 million gallon per year project and is a partnership comprised of Coppers, Transco, J. B. Sunderland, and the Energy Transition Company (ETC). ETC is comprised of two individuals, Charles Robinson, Undersecretary of Commerce under Nixon, and Bob Frey, Assistant Administrator of the E.P.A. under Nixon. It is beyond my comprehension how pork barrel projects like this are approved while good, sound, economically feasible projects go by the wayside for lack of support.

I know that I am preaching to the choir when I am addressing you, but this nation must develop a renewable source of energy. Isn't there something we can do to redirect the approach of the synfuels corporation to allow for loan guaranfees on alcohol fuels projects that are economically feasible?

I offer the following analyzations and recommendations for your consideration.

The Payment in Kind (PIK) program will undoubtedly turn in to the most expensive farm program that we have ever seen. It is currently estimated that it will cost between $18–20 billion with the sole purpose of reducing the Nation's carryover of grain by 2 billion bushels. This is only the tip of the iceberg. What hasn't been said is that by idling 82 million acres using 60 bushels to the acre at $3.00 per bushel, you have not generated $14.8 billion of potential revenue at the raw material level; $14.8 billion multiplied by a factor of seven as it moves through our economy represents a $104 billion loss of earned income, not borrowed money but earned income to the American people that could be used for such things as balancing a budget.

Let me propose a logical alternative. Again, with the end result of reducing the carry-over of grain by two billion bushels, why not build 160 50-million gallon fuel alcohol plants? To build and pay for them in one year would only require $16 billion, and look at the benefits:

Put in place a long-term solution to our ever present "over-supply of grain" rewarding the producers for efficiency instead of punishing them;

Produce eight billion gallons of 200 proof high grade ethanol representing 9% of our estimated 1982 usage. This alone would result in an $8 billion difference in our balance of trade;

Produce 28.5 million tons of high quality protein feed in a condensed form readily marketable to protein-deficient nations. This would be an additional $4.5 billion to our balance of trade;

Create 192,000 direct and indirect construction jobs at the plant sites; and

Create 48,000 permanent operational and service related jobs.

This would keep the most efficient and productive sector of our economy in full production, generating an additional profit at the raw material level estimate at $4.9 billion. This multiplied by seven as it moves through the economy represents $34.3 billion of earned income that does not have to be borrowed and on which interest won't have to be paid.

The sad part of the above sceuerio is that is hasn't been done and that a simple loan guarantee could put it all in place without costing the taxpayers one red cent.

The farmers at American Energy, Inc. have expended over $3-million in developing a data base to complete our project. If we could be of service or provide you with any information regarding fuel alcohol, please don't hesitate to call on us.

Sincerely,

CLAYTON LITCHFIELD,
Executive Secretary.

STATEMENT OF ELEANOR M. GOODALL, ASSOCIATE DIRECTOR, INSTITUTE FOR RURAL POLICY, UNIVERSITY STATION, GRAND FORKS, N. DAK.

At the outset, I would like to state that I think your holding the hearing in North Dakota via the public television network was an excellent idea. Not only did it allow immediate input from many North Dakotans, but it also provided an opportunity for those, such as myself, who watched the program to subsequently offer viewpoints not covered by the initial testimony. Thank you for your efforts in making this possible.

The word "rural" is difficult to define, it is comprehensive, yet it is also imprecise. In general, rural America refers to the people and communities in the nation's nonmetropolitan counties—counties that have no cities with as many as fifty thousand people. Whether one uses this census definition or one of low overall population density, sparseness of settlement, and great distance between communities, North Dakota is definitely classified as rural.

North Dakota is also classified as having an economy based upon agriculture and agri-business. Hence, the emphasis was on agricultural policies in the televised testimony on April 17, 1983. In fact, all but one of those offering testimony gave agriculture-oriented statements.

It is proper that rural voices should emphasize agriculture and I agree that farm policies and ensuing farm programs are of the utmost importance to North Dakota. However, rural North Dakota is also home to a sizable non-farm population and I heard very few voices speaking on behalf of these people. Those who did address non-farm issues, tended to limit their testimony to industrial development.

For many, rural development is always viewed as more or bigger. There is an almost irresistible tendency to narrow the focus of rural development to macro economic development. Without diminishing the importance of this view, we must also express more fundamental concerns for the social, psychological, and personal well-being or development of rural people.

Development also suggests change and change requires people to make decisions, both as individuals and as members of a community. Change, in order to be constructive, requires the creation of appropriate channels which give rural people access to relevant sources of information. They must learn how they can influence the future, thus exerting greater control over their lifestyles.

Seen this way, development begins with mechanisms which are basically educational, although often informally so. Education allows rural people to change and improve their lives in their own ways, by their own volition. It also allows them to enter into collaboration with those who can bring them knowledge as a basic resource. Upon this basis they can make appropriate decisions for their improved well-being as individuals, families, and communities.

North Dakota is currently experiencing considerable change due to development of the state's food and energy resources. This change primarily affects rural communities. In such areas as health care, school reorganization, attracting business, energy development, resource management, transportation, and service delivery, rural constituents need to examine all facets of public policy formulation which will shape their lives.

The University of North Dakota Institute for Rural Policy was formed in October, 1982 to serve as a liaison linking rural communities' needs and problems with the University's resources. Nine rural councils have been formed throughout the state to bring together involvement of rural citizens and the research and service aspects of the University. The purpose of these volunteer councils is to consider priority issues affecting the quality of life in North Dakota communities. The Institute helps these people by providing resource speakers, needs assessments, and research materials and personnel pertinent to their specific area of need.

Through the mechanism of the rural councils, the Institute is generating dialogue with rural people to develop problem awareness, to enhance organizational development, to secure resources, to implement and change policy, and to solve specific problems. This provides the opportunity for rural people to acquire those attitudes, skills, and concepts necessary to influence the social, economic, and political variables that help determine their community's quality of life. The Institute, in turn, receives valuable input from rural citizens regarding its current activities and directions for future efforts.

Public officials and scholars alike have noted the lack of attention to rural public policy, yet thirty percent of the American population now lives in nonmetropolitan counties. Nineteen states are classified as rural—fifty percent of their population lives outside of central cities. In spite of this, rural policy has become the forgotten side of public policy. Often, policy is drafted without concern for the unique circumstances of rural America.

Public policy is a growing field of study and it is hoped that the UND Institute for Rural Policy will serve as a model for other programs around the country. Universities must involve their state's citizens in the setting of priorities for education, research, and service of the highest quality. The kind of faculty development and citizen involvement at the Institute works to focus university and community resources to advocate more strongly rural policy which is beneficial to all rural states.

I completely agree with Senator Andrews' statement in his Capitol Viewpoint newsletter that, "There has been a typical government stall on a plan for comprehensive rural American development dating way back to the days of Lyndon Johnson and continuing on since then regardless of which party held the White House."

Particularly at this time of a return of influence and power from the federal government to state and local governments, it is important that local people be given the necessary assistance so that they are equipped to handle these responsibilities.

STATEMENT OF ALBIN OLSON, FARGO, N. DAK.

I have been farming for 57 years and could have given you a lot of information. I am enclosing a copy of a letter I wrote to the Editor of the West Fargo Pioneer (the Forum) and several other papers. They wouldn't print it; they are unionised and are afraid of the union bosses, who are to blame for the high cost of living and the ridiculous high wage scale that has caused the manufacturer to price himself out of the market.

David Rockefeller and his Chase Manhattan Bank engineered the high interest rates and the high oil prices by organizing "OPEC". They jumped from $4 to $40 per barrel. The U.S. people will pay whatever you charge them.

The labor union bosses said they would not load ships unless at least one-half of the commodities were shipped by American ships, where the cost of s pping was double that of foreign ships. So between Carter's boycotts and t bor union bosses, we were made the last resort for exports. Before you ca a problem, you must know what caused it.

If we in our Nation want to have our share of the export market, we have to cut our wage scale of our unions by at least one-third so that we can compete with other Nations. They have brainwashed those in government to make them believe that they need a raise in salaries because of inflation. They make the inflation. Its' nothing but greed, engineered by the labor union bosses.

I bought a new home in Fargo three years ago, and I live on less than $12,000 per year. The home has four bedrooms, three baths, two fireplaces and electric heat. Our electric bill is $2,500 and taxes $3,000, are the two big items in the cost of living. Next is gasoline, food is $3,500; we eat out at least two times per week. Our taxes are high because the city has over sixty employees that are getting over $30,000 and up to $50,000 yearly. That is a very good welfare program! And most of them don't earn their salt. Those that are paid less than $12,000 are the ones that do the work.

We have way too big a spread between those that do the work and those that do the dictating. Farming is much different than any other business, as he is guided by luck. Without it he can just not make it, as he has drought, wind storms, too much rain, hail, and many years he works all year and receives nothing and has to mortgage his property to live on.

I had some very good friends in the western part of our state that were dried out two years in a row; they had to sell their farm to pay their bills because of high interest rates. They couldn't hang on. "Just plain greed."

Even in the city of Fargo, we have had many a businessman that has had to close his doors because of high interest rates, high taxes and high labor costs that robbed him of his profit.

During the Truman administration, we had wage controls, and the top wage was $1.25 per hour and the average was 50¢ per hour. You never heard of anyone going bankrupt or complaining about the high cost of living. You could buy a home for $5,000 that cost $50,000 now. Wage inflation has gotten us no place; greed has taken it away.

Our federal government has gotten into debt load that can never be paid because they allowed too much greed in salaries.

Your new wealth comes from the soil, in grain, grass, coal, oil and minerals. The farmer should furnish at least 60 percent of this new wealth and you multiply that by seven and you should have your national income. Because we have too many that are too greedy, this formula does not work any more. So the government has had to borrow this money back from the greedy to operate the government.

We all live off each other in one way or another, but when some get too greedy this wheel stops until we can rebalance it with new wealth.

In closing, we do need wage controls with a few rollback for those that are overpaid for what they accomplish so that we can compete with other nations on a fair basis.

STATEMENT OF ANDREW D. HECKER, FAIRFIELD, N. DAK.

I would like to say that there was too much emphasis on what the federal government can do. As a rancher, and all other people in the livestock industry, we rely on supply and demand. A lot of these programs to help out the farmers have harmed the livestock industry and we are not bailed out by the government.

In regard to the remarks made by the caller from Haynes, North Dakota, about selling of the national grasslands, it seems to me like the Forest Service personnel and the secretaries and peple working in the offices are more against having the land sold and are afraid of their jobs. I am in favor of selling the land. which would get us out of under all this bureaucracy we have to deal with. I have ranched successfully for 38 years and have to be told now what kind of a management plan to follow. You asked for comments, so here is my thinking: sell the land as quick as possible.

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